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OCTOBER, 1950

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"Securocrats"?*

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The Management Review

VOLUME XXXIX No. 10

OCTOBER, 1950

Contents

GENERAL MANAGEMENT

Is Anybody Listening? (<i>Fortune</i>).....	574
Today's Economic Challenge (By Edwin G. Nourse).....	578
Are We Breeding a Generation of "Securocrats"? (<i>Dun's Review</i>).....	580
The Obligation of Management to Be Competent (By Thomas H. Nelson).....	583
What's Wrong with Plant Tours? A Tourist's View (By W. G. Broehl, Jr.).....	586
Appraising Returns From Industrial Research (By Allen Abrams).....	588
ALSO: Does Large Corporate "Bigness" Harm the American Economy?; Trends in Corporate Donations; A Business Man's Prayer; New AMA Catalogue to Inaugurate Simplified Discount Policy (p. 636)	

OFFICE MANAGEMENT

Applying Quality Control to Office Operation (<i>NOMA Forum</i>).....	590
How to Organize a Company Library (<i>The Office Economist</i>).....	593
ALSO: Keeping Catalogs Up to Date; Dictating Machine Holds Secretarial Threat; 34 Million Telephones	

PERSONNEL MANAGEMENT

How Can We Improve Labor-Management Relations? (By Forrest H. Kirkpatrick).....	595
A More Effective Personnel Job Through the Employee Utilization Concept (By Michael G. Blansfield).....	597
62 Years of Profit Sharing at Procter & Gamble (By William G. Werner).....	601
Getting Results with Industrial Movies (By Alexander I. Newman).....	602
How to Run Employee Contests for Improved Performance (<i>Employee Relations Bulletin</i>).....	605
Stimulating Family Readership of the Employee Publication (<i>Quotes Ending</i>).....	606
ALSO: Blood for a Day with Pay; "Wise Owl Club" Promotes Eye Safety; Blue Mondays Are Really Blue; Detecting Hidden Diabetes in Industry	

PRODUCTION MANAGEMENT

Industrial Research Practices in 41 Companies (By David Bendel Hertz and Albert H. Rubenstein).....	609
Labor-Management Cooperation for Safety: A Statement of Principles (Committee on Labor-Management Cooperation for Safety).....	610
Organized Replacement Increases Plant Productivity (<i>American Machinist</i>).....	611
ALSO: Is Your Safety Eye Wear Safe?; Conveyor Belts—They May Move People, Too (p. 636)	

MARKETING MANAGEMENT

The Handling and Follow-Up of Product Inquiries (<i>American Supply & Machinery Manufacturers' Association</i>).....	614
Manage Your Trade Marks (<i>Trade Mark Information Service Report</i>).....	615
Improving Relations Between Salesmen and Purchasing Agents (<i>Industrial Marketing</i>).....	618
ALSO: Cost of Keeping Salesmen in the Field; Do Salesmen's Reports Waste Time?; Salesmen's Earnings in 1949	

FINANCIAL MANAGEMENT

Making Administrative Overhead Flexible (<i>Controllers Institute</i>).....	620
The Accountant's Share in Company Pension Problems (By Robert C. Tyson).....	622

INSURANCE

Implications of Recent Industrial Fire Experience (By Chester Babcock).....	625
Can Management Design a Pension Plan? (<i>U. S. Chamber of Commerce</i>).....	628
ALSO: Pension Plans May Be Illegal; Labor Secretary Endorses Subsidy Plan for Older Workers; Money Can't Replace Men; The Embezzler—A Composite Picture; Record Increase in Group Disability Cover	

SURVEY OF BOOKS FOR EXECUTIVES

631

General Management

Is Anybody Listening?

Here are some salient abstracts from an article that is already causing considerable discussion. Significant controversial articles are presented in the REVIEW in line with our general policy of keeping readers currently informed of all points of view.—ED.

AMERICA AT THE Mid-Century should be the golden age of understanding for business. Never before has the businessman had so much paraphernalia with which to communicate to those about him, and never before has he spent so much time using it. And more and more, as he looks about him, he is coming to wonder . . . Is anybody really listening?

He gets up a report about his business and if it's simple he is accused of talking down to people; if it isn't he is accused of talking over their heads. He spends thousands to inform people that the company's profits are 7.2 per cent, only to discover when his pollsters query them later that they think he made 50 per cent. Whatever the medium, the more he tries to communicate, the more he can conclude that management and the people it tries to reach are groups separated by the same language.

Unhappily, one great block stands in the way of a solution to this problem. Sanctified by the name of communication, a great and persuasive fallacy has seized a large part of U.S. business. As long as businessmen cherish this fallacy, that long will they divert themselves from the real job to be done.

And thus we come to the great cliché of 1950: *Business has been outsold—or, as sometimes phrased, Free Enterprise needs a soapbox, too. We must sell Free Enterprise.*

And sell we have. There is no medium or gimmick of modern advertising and merchandising that has not been put to the task. This year the Free Enterprise campaign will probably account for at least \$100,000,000 of industry's ad budget and an unknown but hefty share of its employee relations expenditures. More to

the point, it is absorbing more and more of the energies of top management men.

And it is not worth a damn.

The Free Enterprise campaign, *Fortune* believes, is psychologically unsound, it is abstract, it is defensive, and it is negative. Most important, in a great many of its aspects it represents a shocking lack of faith in the American people, and in some cases downright contempt.

Let us listen for a moment as the franchise is explained. Here, in a few actual selections, is the chorus from the banquet tables:

The challenge I am placing before you is to pioneer in reselling the virtues of our American way of life to our own American people.

Sure, we know these things . . . but the man with the hammer and the girl behind the counter, they do not know these things and we must tell them.

We must . . . sell America to the millions. We must sell America to Americans.

Here is fallacy exposing itself. Now just who is to do this? America is the one thing *everybody* is an expert on. The reader, for example, is the greatest expert in all the world on the America of his experience. Nobody knows more about what democracy and free enterprise and freedom mean to him than he—and none of the prose poems ground out in Madison Avenue ad agencies are likely to change a recollection of it.

Yet the sell-America copy rolls on. The old hitchin' post: symbol of democracy . . . And he was a man who built factories and a man who sold furs. . . . Yessir, old John Doe is a plenty savvy guy . . . Main Street is Freedom Street. . . .

Not since the wartime ads of apple-pie infamy that so angered G.I.'s have we

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been insulted with such noxious interpretations of the American Dream. And never before have we so debauched and exploited the symbols that bind us.

There is a time for reaffirmation. All of the time is not it.

Recently *Fortune* interviewed a sample of U. S. top management to find how its individual members saw the problem of communication. Their off-the-cuff comments were somewhat surprising. In startling contrast to the expressions of alarm voiced by many of the organizations that purport to speak for him, the average executive doesn't seem to believe that people are creeping to ruin. Of the 100 interviewed, less than 25 professed any enthusiasm for the Free Enterprise campaign and with few exceptions they were not much more than lukewarm about it.

They were worried over the problems of employee misunderstanding. But pervading all their remarks was the refreshingly elemental theme that its solution will be determined by what management does. And by management they meant themselves. Rather than as a national group vs. group affair, they saw the problem in terms of their own firms—or, to put it another way, they were more concerned over employees than they were over Labor.

But why is misinformation so resistant to information? Why, even in informal communication, are our best-intentioned efforts so often misinterpreted? Part of the answer is the matter of context. Why is it being said? When? And *who* is saying it? The A & P ads on the anti-trust issue are a case in point. There are several superficial reasons for their impact—style, newsworthiness, and so on. But the most important reason, as the people who got them up concede, is the fact that most people like the A & P.

This power of context—the importance of a congeniality between speaker and audience—is a point easily proved. Recently *Fortune* staged an informal experiment—and of a type the reader can easily try out on his associates. A cartoon chart of "The Four Goals of Labor" was clipped from a C.I.O. newspaper and photostated. A new legend, however, was

attached at the bottom: "From June 3 N.A.M. Newsletter." Twenty C.I.O. members were then shown the ad and asked if they thought it was a fair presentation of labor's goals. Four grudgingly said it was and two couldn't make up their minds. The remaining 14 damned it as "patronizing," "paternalistic," "loaded," etc.

Only with trust can there be any real communication, and until that trust is achieved the techniques and gadgetry of communication are so much waste effort. Study after study has pointed to the same moral: Before employees will accept management "facts," they must first have over-all confidence in the motives and sincerity of management.

The prime obstacle to the confidence the businessman must enjoy if he is to be believed is the prime obstacle of every form of communication. It is, simply, the fact of difference—the great gap is the gap in background, experience, and motivations between ourselves and those with whom we would communicate.

Is the average top executive the same man as the average worker? Whatever his origins may have been, he lives in a different section of town, he belongs to different clubs, he has different friends, he pays different taxes, he has different loyalties—and he has different motivations. He wants job satisfaction, too, of course, but much more than the worker he thinks in terms—or thinks he does—of economic incentives and competitive drives. Furthermore, by reason of his position, he is likely to feel a much higher sense of identification with the corporation and to be more concerned with long-range than short-range goals. He is, in short, a different man.

But this acknowledgment, with its overtones of inequality, goes down hard with the American businessman. Indeed, it might be argued that the very obisance we pay the egalitarian tradition is one of the things that most militate against the achievement of it. The always-open door, the heavy geniality and first-name calling at the company party, the standing joke with the elevator boy—many an executive sees in these outward symbols of

equality the key to good communication. And thus does he maintain a fiction that will prevent his ever understanding those whose liking he wants so very badly.

Theoretically, management should be able to learn a few lessons from its salesmen in this connection. One of the first things they learn is the absolute necessity of finding out what's *really* on the minds of their customers. More than he talks, the good salesman listens. And like anyone else who listens, he induces a catharsis that is often quite as important as what is being listened to.

By and large, the fine art of listening remains one of the most overlooked tools of management. One finds employee communication defined in company handbooks as meaning "to inform, to tell, to show," with too little emphasis on the opposite side of what is usually referred to as a "two-way street." Here lies the fundamental error of the Free Enterprise campaign: It's the *other fellow* who is supposed to do all the listening.

Another problem that should not be overlooked is the common tendency to think in terms of stereotypes. Look at the ads—particularly the Free Enterprise ones. What are *they* in terms of? The terms are often those of Main Street: shady lawns, barbecue dinners in the back yard, the town firehouse, church suppers, and so on. Some of it, of course, is willful corn, and far too much of it is written in the excruciatingly homey prose that is so often confused with the American vulgate. By and large, however, the bulk of it represents a sincere effort to communicate with Americans in terms that are relevant to them.

But do most Americans live on Main Street? The greatest single proportion live in the dirty, smelly city. But this is something we do not like to face, for the problems that urban life has wrought are among the most disagreeable we have to meet. Pulaski Boulevard Extension basically may be as much of a Main Street as the stereotype of it. But, somehow, it is not so *American*. And so many an American goes his way with his environment seldom reflected in the efforts of those who seek to communicate with him.

We have not been communicating with people so much as we have been talking at stereotypes. Most common, of course is the stereotype of the worker. He should be easy to persuade. Really a pretty decent sort, a lot of people can tell you, and if it weren't for those radicals and gangsters he'd think just like you and me. There is not a field in which the standardization of error does not remain impervious to experience. The Salesman, for example; first-hand knowledge reveals him to be a very elusive character indeed. Yet everyone knows the type that makes a good Salesman (extrovert, good mixer, optimist, etc.). Similarly, the Professor, the Bureaucrat, the Big Businessman. One hardly need belabor the point. There is no one that does not realize that though he sees others clearly, others persist in seeing him as a stereotype.

The great enemy of communication, then, is the illusion of it. We have talked enough; but we have not listened. And by not listening we have failed to concede the immense complexity of our society—and thus the great gaps between ourselves and those with whom we seek understanding. Yet, though we cling to the notion of an ordered, simple world—with a nostalgia, frequently, for something that never was—we go on compartmentalizing ourselves even further. The stereotype, the jargon—these are the evidence. Furthermore, in this specialization we have come to regard technique as an end in itself. The symbols by which we communicate as often rule us as we rule them.

Now let us examine the problem within the office and the factory, and through this, perhaps, we shall come at last to the one great binding principle from which all effective communication must stem.

"If the man-hours spent by subordinates both on and off the job in preoccupation about what the boss thinks were added up," F. J. Roethlisberger has estimated, "the total hours would be staggering—not to mention the results [it] has produced in nervous breakdowns and other forms of mental anguish." Thus, in effect, we have something of a paradox, for while the structure of business leads

us to conceive of communication as a downward proposition, our real efforts are not directed downward but *upward*.

What did the old man's frown mean? Just a hangover? Or was he sore about those reports? We spend so much time worrying about what is *really* on the boss's mind that we have little to spare for finding out what is on our subordinates'; they, as a consequence, must worry about us—and so on down the line.

As a result we have the spectacle of frustration producing illusion. For if the subordinate has anything unpleasant to communicate, he is led to communicate it downward—if for nothing more than catharsis. And, obversely, whatever he has to communicate upward, he tends to sweeten.*

Thus, while we communicate upward, downward we *explain*. And in explaining we unconsciously rationalize the status quo. In this static concept of communication, "the Book" is never questioned. If something is wrong, it cannot be the structure of the organization, or its goals, or its policies; it is simply that employees don't understand them well enough.

Thus have many grave questions lain festering. And more important, thus we have bypassed the most fundamental of all the problems technology has wrought: the worker's immense—and unfulfilled—need for self-expression, for participation. Now participation, of course, is something everybody is for, and in more instances than not, industrial "participation" programs have been little more than well-meant fictions designed to give the worker a "feeling" of belonging and very little else. But where the basic principle has been followed, where management has *wanted* the participation of the worker, the results can almost be called exciting. Whatever the mechanics—Pitney-Bowes' "industrial council," the Scanlon plan (*Fortune*, January, 1950)—in every case there has flowed a strong and lubricating confidence. But let us note that, though

the principle is plain enough, there is nothing simple about its application.

But the basic lesson, at least, is clear. For as we go deeper into the problem, may we not find that participation, however indistinct on the surface, is at the bottom of all successful communication—whether the medium be advertising, public relations, salesmanship, or the business speech?

And is not participation at the bottom of businessmen's great new preoccupation with communication? The businessman used to get satisfaction out of being the man on the hill, the patron of the arts, the payer of the church mortgage—and did not everyone agree that it was right and proper that he be entrusted with the destiny of the country? Now, satirized in countless novels, politically a prophet without honor, he is stripped of the former dignities and of much of the old feeling of moral contribution.

But he has begun to seek something very admirable—a renewed sense of participation for his employees. True to the old rationale of business, he explains it in terms of self-interest—and indeed, in increased productivity and such material factors, it is to his self-interest. But is it not perhaps that what he really wants is a sense of participation *for himself*?

This quest makes the omens good indeed. Propaganda and communication are confused by far too many, but more and more businessmen are tackling the real problems. It is a confused picture before them. There is still very little we really know about good communication. There is little exchange of lessons between mediums—advertising learns too little from selling, selling too little from industrial relations, and so on. Nor has there been enough exchange of lessons between companies; for many executives have been unaware that what they see as a problem peculiar to their situation is giving ulcers to businessmen everywhere. And for every solution someone has advanced, someone else has advanced precisely the opposite with as much vigor. For the businessman, in short, there is a hell of a job ahead.

* The tendency of subordinates to insulate executives against certain unpleasant realities is discussed in "Wrapped in Cellophane," by Lawrence A. Appleby in *AMA's MANAGEMENT NEWS*, October 31, 1949.—Ed.

—*Fortune*, September, 1950, p. 77:14.

Today's Economic Challenge

EDWIN G. NOURSE*

AMERICA TODAY stands at a crucial stage in its own history and in the life of the world. With almost fabulous resources in our hands, we are confronted by a fateful responsibility to employ those resources so as to enrich life, preserve liberty, and accelerate the pursuit of happiness not only among our own people but, in reasonable measure, throughout the society of free nations. Many of these countries have been less favorably situated than we, and some of them have made greater sacrifices in pioneering and in preserving human liberties than we have ever been called upon to make.

Our industrial system may be likened to a giant machine or power plant, designed to produce as large as possible a flow of goods and services, and to distribute this national product through a system of market prices and private incomes, and through taxation and public expenditures which will most fully facilitate and stimulate the continuation of the process.

There are three general lines of attack upon the problem of achieving stabilized prosperity which are vigorously espoused by different factions of the public. At one extreme, we have the authoritarian proposal, ranging from mild planned economy to the harshest kind of autarchy. At the other extreme, we have voluntarism, ranging from complete *laissez-faire* to reliance on the "impersonal forces of the market"—operating, however, through institutions of man's devising. In between these two border areas is the middle ground, where most of us live our intellectual lives. We believe in, and are seeking to develop, a free and democratic but scientific system of self-administration—through legally constituted groups, private and public.

Even within this middle band between

the authoritarian and the automatic organization of economic life, there is difference of opinion as to the machinery by which prosperity or sustained use of the nation's resources might be brought about. One can be called the "aggregate" and the other the "constituent" approach.

This latter approach, which I consider the true economic adjustment approach contrasted with that of monopoly power or special interest dominance, has many facets—among them "administered prices," "collective bargaining," and "scientific management."

Our national propensities, incentives, and capacities to produce and to consume are determined by the bargaining and "administered" processes of the goods and services market, the labor market, the money market, and the capitalized properties market. This market process covers not merely the areas of private proprietorships, corporate business, and cooperative associations but also the area of government procurement, and federal, state, and local employment. While these bargaining and institutionally administered relations of the market are myriad and complex, they fall under some five broad categories identifying the several parties at interest. These parties may be listed roughly as: labor, capital, management, agriculture, and government. This is not a logically accurate classification, but we may use it for convenience because it corresponds to the realities of the alignments into which people as a whole fall in their efforts to run the economy so as to maximize individual incomes and promote national prosperity.

While the two phases of this objective—maximum income for the individual and greatest total prosperity for the economy—are here stated as though they were synonymous or at least internally consistent, we find that in practice the matter is

* Economist, Washington, D. C.

From an address before the Semi-Annual Meeting of the American Society of Mechanical Engineers, St. Louis, Missouri.

not so simple. In the short run, and in the narrow view, the individual, the particular company, or the given interest group may derive temporary or apparent advantage from a course which works against the fundamental and long-run prosperity of the economy as a whole. This is at the root of the perennial struggle between capital and labor, the recently intensified struggle between farm producer and town consumer, and the widespread conflict between business men and politicians.

The great threat to the achievement of stabilized prosperity comes from the development of localized power or monopolistic strength by any one of the interest groups, and the attempt to exploit this strength to its own immediate advantage. Instead of this, each of these groups should try to discover and effectuate functionally correct price and income relationships, that is, the relationship between the productive contribution made and the pecuniary benefit claimed which will in fact promote the sustained and efficient operation of the system as a whole.

If voluntary administration of our industrial process is to proceed on those lines of peace and efficiency that will promote stabilized prosperity, we must master the concept of economic solidarity. From top to bottom—in organized labor, in professionalized management, in government relations, in economic statesmanship, and in the basic understanding and behavior of citizens as voters—our economic life must reflect a broad grasp of the functional relationships among private interest groups and between private and public forms of organization in the economic sphere.

Today a voice booms out from the grim towers of authoritarianism to say that free peoples will never discipline themselves and work to a common purpose in developing the strength that is potentially theirs. Thus far, we have not decisively refuted that challenge. We have not shown that we can use freedom to pursue our own economic interests as we see them without abusing that freedom so that individuals, companies, or groups overreach their place in a well-balanced productive

economy and thereby throw it into disorder and impair its productivity.

Agriculture made a promising start toward defining its role as a contributor and beneficiary of a national economic program of stabilization under the slogan "parity." But it has progressively redefined parity to make it less and less a formula for economic adjustment of production to market needs and more and more a cloak for federal subsidy to farmers politically shielded from the need for constructive adjustment.

Labor has made some impressive declarations in favor of mutual adjustment of the several parts of the economic machine to each other in a working whole. While I was serving on the President's Council of Economic Advisers, union representatives presented a memorial urging that "the President through his Council Advisers should convene all groups immediately to establish an agreed-upon program which all management, labor, and agriculture will pursue." The proposed conference was to seek a comprehensive answer to the question: "What do we do to build and maintain on a long-term basis a permanent full-employment and full-production economy?"

But in default of such a grandiose agency of universal settlement, they have not been willing to rely upon the less ambitious but functionally better adapted devices of bilateral collective bargaining in good faith. They have not been willing "to bear the burden and heat of the day" so as to work out the kind of adjustment of productive input and wage "take" that would promote stabilized prosperity. They have conducted hundred-day strikes or used their mass power in other ways to exact unilateral decisions, some of which have demoralizing effects that are not hard to discover.

Management has been equally obdurate in clinging to past traditions or future aspirations even when the resultant shutdown threatened to bring about government seizure of the industry, possibly starting a chain reaction that would end in nationalization of a basic industry.

Government planners have been willing to follow reformist dogma to the point of

making operative conditions difficult if not impossible for private business. And reactionary business men have sought to confine areas of public service to the limits which were appropriate to a pre-industrial age. They have clamored for reduction in government spending and then put on political pressure to get themselves exempted from any act that adversely touched their company or their community.

This kind of individual and group action amounts to sabotage of our efforts to stabilize national prosperity. There has not as yet been a willingness to weigh

the claims of all special interest groups as parts of a total productive program and to formulate and follow those policies that "on balance" will do most to promote the smooth functioning of the economy as a whole.

It would be a sad commentary if, in this day when popular education has brought us such command of the technologies of material objects and natural forces, we should fail in our grasp of the technologies—that is, the applied social science—of the human mind and spirit associated in business ventures and in free political life.

Are We Breeding a Generation of "Securocrats"?

THE FIRST GENERATION of a new species of American is just about to mature in this country. Within not more than another decade this new strain may be the predominating majority in our society and may be running the show. Past generations of Americans, in keeping with their attitudes and actions, acquired the descriptive appellation, "rugged individualists." A comparable term for this new species might be "*securocrats*."

In outward appearance, the securocratic American is indistinguishable from his parent stock, except that he is probably bigger, healthier, and can expect to live longer on the average than any previous generation. Though sounder in bodily and biological characteristics, and as personally brave as his forebears, the new securocrat exhibits some pronounced weaknesses of spirit, as judged by long accepted standards. And when it comes to matters of social and economic responsibilities of citizenship, he shows a lack of what has stood for years as *intestinal fortitude*. One of his dominant traits is an all-pervading preference and desire to "play it safe," and his mind is security-conditioned from birth.

Possibly more rewarding than to catalog

all the maturing characteristics of the new securocratic American would be to find out what it is in the contemporary industrial environment and political heredity patterns of our society which is producing so many security-minded Americans.

Does our American educational system equip young people with an understanding of the American economic system? A careful examination of the books and curriculum plus interviews with the teachers of almost any local school system in the country will show that the average student graduating from high school has at best only a meager and general knowledge of how our system works; and much of what he does know is implicitly critical of the fundamentals of free competitive enterprise. For the minority of graduates who go on to college, there will be more generalized courses which may be proportionately more productive of prejudice against capitalism than understanding of its functions.

Can young people get the answers on economic issues from their parents? Surveys which have revealed such parents' misinformation on facts about property ownership, profits, wealth accumulation, and the like, seem to indicate it is very

doubtful that they could provide satisfactory answers.

As to the possibility of getting the facts directly from business men, the chances are remote. A fact-hungry high school student couldn't get in to see the average corporation president, banker, lawyer, chief accountant, purchasing agent, or engineer of any sizable "free enterprise" on a bet.

On the other hand, on numerous American college campuses and in many of our high schools, our questing youth can find some version of the Young Communist League or assorted "social discussion" or "political action" groups whose discussion leaders are zealous in their efforts to provide those missing answers—and they have an answer for everything.

There are no bargains in security. The price of just a little bit of federalized security comes exceedingly high, and the cost of totalitarian security is so great that no nation or people in history has ever been able to afford it. Yet, the vast majority of people in foreign lands are feverishly shopping for these something-for-nothing bargains; and in our own country, where even the "common man" is Midas-rich by comparison in both tangible goods and previous rights and freedoms, the bargain hunters grow more numerous daily. Such is the environment and such are the conditions on which securocracy grows.

This trend can be stopped by only one thing—factual knowledge of how our system works. The keystone problem therefore becomes: How can we bring about the widespread understanding necessary to preserve our way of life from the folly of experimenting with "just a little bit of socialism"? Who is going to do something about our whole educational situation?

The conclusion is inescapable that unless and until the business men themselves in every American community—the production managers, the merchants, the technicians, the professional men, the foremen, and indeed the workingmen whose sons and daughters have an equal stake in our system along with the chil-

dren of the wealthiest citizens—take a far more active and responsible role in guiding our school system and its program, the job will not get done.

One of the best things you can do to insure that your business and the other privately owned and operated enterprises in your community will continue as free institutions is to see to it that the young people who are next in line to take over their ownership and operation understand the rules of the game. Our peculiarly successful economic system is neither perfect nor sacred. But without it none of the other free institutions which we do hold sacred and inalienable will very long endure.

Why not begin in your town by talking things over with your business associates and neighbors? Then make it a group project, either informally or through some suitable local organization, to look into your own community school system.

As a starter, visit the schools themselves. Talk to the principals and teachers. They'll be surprised to see you and will appreciate your interest. Get acquainted with the school board members and the PTA.

But don't overlook the most important ingredients of any school system—the children and what they are learning. Visit some classes, talk to the students, read some of the books, and study some of the lessons yourself. Maybe a series of committees is in order to do the job thoroughly.

As a guide line for your inquiry, ask yourself, "Will a youngster going through our town's school system come out with a pretty clear idea of:

How our economic system operates to create wealth, jobs, goods, and services to support our complex society; how its components are owned and its products divided; what the accepted roles and responsibilities are of capital, management, labor, and government in our society; why our arrangement of these factors is so demonstrably superior to competitive 'isms and 'ologies; what opportunities and rewards the system holds for individuals growing up in it and why; and so on.

Perhaps you may decide that the schools

can never fully acquaint students with the facts of life in your world of business and still teach them all the other things they need to know.. So why not organize a program of plant tours, "career forums," or special meetings with local business associations where at least the high school students, soon to graduate into responsible citizenship, can find out at first hand what makes the economic world go round in their home town.

The business men of the Mahoning and Shenango Valleys in Ohio have formed an "Industrial Information Institute" that faces squarely up to the key job of educating the youngsters in the area about the economic environment in which they will live and work. The Institute's School Advisory Committee, working closely with the schools and all local industry is actual-

ly writing and publishing a series of 11 full-sized school books for use in grades 2 through 12. Sort of McGuffey Readers brought up-to-date, the volumes thus far published carry such titles as *Our Neighbors Tell Us about Their Work* (for the third grade), and *Exploring Our Neighborhood with Our Friends* (for the fourth grade). The series will be used by 3,700 teachers to present the fundamentals of living and working in a free enterprise environment to 100,000 students who live in the area about whose economic life the texts are written.

Perhaps a similar project is needed in your community. Above all do not be dissuaded from your purpose by fears of the "high cost of education." It is as nothing compared with the high cost of ignorance on which securocratic dictatorship feeds most fatteningly.

—MILLARD C. FAUGHT. *Dun's Review*, Vol. 58, No. 2,262, p. 24:12.

Does Large Corporate "Bigness" Harm the American Economy?

A RECENT *Mill & Factory* survey, conducted among manufacturing companies of all types and sizes, was designed to learn whether executives of these companies consider the so-called large companies an asset or a liability to the American economy.

Following are some of the salient findings:

1. There is nothing harmful to the American economy because of the so-called large companies, 96 per cent of the respondents state.
2. Competition from large companies is not unfair to their business, 93 per cent of the respondents reply.
3. Ninety-one per cent of those answering the survey state that they sell some of their products to large companies.
4. In general, large companies are beneficial to small companies, 92 per cent of the respondents believe.
5. The present government policy which, seemingly at least, is to break up large companies just because they are large is not approved by 99 per cent of the respondents.

NOTHING SACRED: The Professional Pallbearers Association, passing up amalgamation with the AFL's gravediggers or the AFL's casket makers, voted 100 per cent to join the AFL as a separate unit. Object of the Professional Pallbearers Association will be to make all funerals union funerals with relatives and friends permitted to act only as honorary pallbearers. Members must be six feet tall, weigh 180 pounds, and fit into a size 40 suit. Union pallbearing rates vary with the dress. For sugar-scooped coat and diplomat-striped trousers, it's \$4; grey flannel is \$3.50; and in ordinary blues, \$3.

—National Industrial Conference Board

The Obligation of Management to Be Competent

TODAY THE RIGHT to be management is being challenged—not so much by those who own the enterprise and hire the managers as by those who, as employees and citizens, are affected by management. Employees have created powerful organizations whose leaders not only want to take over certain functions of management, but sometimes imply that they could do better than the present managers.

There is more at stake than just our positions. In the opinion of many authorities, private enterprise itself depends on management's ability to prove that our American economic system is the one best way of providing for the increasing needs of people.

Roland P. Soule, of the American Machine and Foundry Company, reminds us that our technological ingenuity has done more than increase our standards of living. "The technologist," he says, "has brought about more social change than any demagogue or statesman.... He is still brewing the strong and potent medicine of change, and he is still injecting it into our economic body in doses which grow larger every year." If management cannot manage this highly complicated system, then it is possible that the system will be discarded together with those who are primarily responsible for it.

But a higher price may yet be paid if management is not competent to meet its new obligations. Democracy itself leans heavily on the management of our economic life. The enemies of Democracy may have more hope in management's inability to avoid depression than in their atom bombs and the superiority of their military forces. Communism's chances of winning the war it is now waging depend more on our inability to manage our economic system during peace than on any lack in our ability to wage a successful war.

Let us examine some of the major areas where competence is most certainly demanded of management by the times:

1. *Technical Specialization.* The first is technical competence in the specialized area in which the manager is engaged. While the colleges can furnish the basic fundamentals, new ideas emerging from year to year require continuous study to maintain one's competitive position. A man may have a good foundation in his field and still fail to keep up to date.

2. *Management Techniques.* But technical proficiency does not necessarily make a good manager. Management is something more than superiority in a specialized area. When the specialist becomes a manager he has to think differently and use tools that are different. He must think in terms of functions rather than in terms of specific operations. What are these management functions? We usually say that there are five: (1) planning, (2) organizing, (3) directing, (4) coordinating, and (5) controlling. These are old words, of course. We've used them in business for a long time. But they are gaining new meanings.

Many executives of the "old school" are inexpert in the use of the modern tools of management which help to carry out these functions. These tools include activity planning guides, performance appraisal devices, salary administration plans and control instruments, as well as budgets and statistical reports. Some executives even dodge the responsibility of learning to use them. "I've been successful without them—why take a chance on new-fangled devices I don't understand and honestly don't like?" is the typical reaction of the management reactionary.

But the competent manager is just as solicitous about improving his tools and techniques of management as he is about improving manufacturing methods and sales techniques or reducing costs. He is

From an address by Thomas H. Nelson, Partner, Rogers & Slade, before the Management Division of the American Society of Mechanical Engineers.

just as critical of operations in his own bailiwick as he is about operations down the line.

3. *Management Thinking.* True management competence involves the conscious direction and critical appraisal of one's own thinking habits. The successful executive is usually a good thinker but he seldom knows why his thinking is sound. An analysis of our college curricula will show little if any attention to the ways in which the mind works. There is little that equips the individual to get back of the steering wheel of his own mental equipment, little about the use of the "gadgets" on his mental dashboard. It all adds up to too much emphasis from the start on *what* to think and too little on *how* to think.

4. *Human Relations.* When we talk about management as a trusteeship, we admit that the work experience of the employee must be designed to provide him with satisfactions on the job itself, not merely with dollars to buy substitute satisfactions in his leisure hours.

There are two sets of principles and techniques of human relations that management can use to provide these satisfactions. The first is the "case method" of dealing with persons as individuals, each unique and different from the others. When management, from foreman to president, asks regarding a person, "What makes him act this way?" or "What does he really want?" it has risen above the mass concept. The second involves more than good person-to-person relationships—it considers group thinking, group feelings and group action.

Through these principles and techniques the manager puts to work for management the most recent contributions of psychology and sociology, which are just as important as new developments in accounting and engineering.

5. *Emotional Maturity.* Emotional maturity goes beyond management knowledge and skills. It has to do with attitudes, emotions and dispositions. Here are some typical attitudes that accompany emotional immaturity:

Never admit a mistake of judgment or action.

An executive must be firm—he must stick by his decisions, right or wrong.

Don't let anyone criticize your department—that is a sign of weakness.

Since an executive is the boss, he is superior to subordinates in all ways, and on all matters.

Most people do their best work when they fear the boss.

These and many other similar attitudes handicap some executives much more than lack of knowledge, skill or experience.

Emotional maturity is characterized by poise, self-confidence, graciousness in accepting criticism, willingness to admit a mistake and learn from it, recognition and utilization of the specific superiorities of subordinates and associates. These attitudes can be consciously and purposively developed. Their acquisition need not be left to chance, for they are just as essential to effective management as are the principles of planning or directing operations.

6. *"Executive Characteristics."* Here are included a number of executive characteristics such as decisiveness, a reaching for responsibility, a drive that overcomes obstacles, and contagious enthusiasm. Top management looks for these characteristics in promoting men to higher executive positions. Studies of what makes executives successful lay great stress upon them. But so often we talk about them as though they were inborn qualities that cannot be developed.

Actually, most of us can point to persons who at one time seemed to dodge responsibility but now court it. We can remember some executives when they were shy and retiring who now energize their associates and subordinates to superior efforts. We can think of men who were unduly slow in making decisions who now move rapidly and confidently to action.

7. *Management Philosophy.* The manager's viewpoint or philosophy is not a thing apart from the principles of management we have been discussing. Today's complex and rapidly changing situations challenge many of the old values commonly accepted in the past. The authority of possession and position are weakening. What an executive may do is being limited by the influence of labor leaders who

are not even a part of his organization. The government agent, the accountant, the engineer, and the personnel man also tell the manager what he can and cannot do.

Do the viewpoints of executives equip them to understand and deal wisely with these changing values? Clarence Francis, Chairman of the Board of General Foods, in speaking to a group of top executives, phrased it something like this: "When I

came into business 30 years ago, the prevailing idea was that whatever was good for business was good for people. But today the prevailing idea is that whatever is good for people is good for the business." Management must express a philosophy of values that builds a better industrial life—an industrial life which maintains a wholesome balance among the interests of investors, employees, customers and the public.

Trends in Corporate Donations

COMPANY GIFTS to charitable and educational institutions in 1950 will equal the record donations of 1949, according to a survey of 201 manufacturing concerns just completed by the Conference Board. Because of the growing number of charities, more and more companies favor some form of pooled or consolidated giving to reduce the burden entailed in individual gifts.

Community Chests. Most companies express the view that their prime philanthropic responsibility is to those communities in which they maintain plants or offices: "The cause is worthwhile if it touches upon the living conditions of our employees and their families."

Hospitals. Local hospitals also are prime recipients of company gifts. Corporations generally contribute heavily to hospital building funds, as well as to maintenance campaigns, on the ground that improved medical facilities for the community are of direct benefit to their own employees. Because gifts to hospital building funds are irregular and vary so much in size as to make budgeted giving difficult, some companies are arranging to meet their pledges over a three-year period.

Educational Institutions. The need for assistance to educational institutions is generally recognized by management. Some companies make contributions to general funds and college development programs, but only upon receipt of specific approval from their boards of directors. These gifts are predicated upon the service rendered by colleges in providing personnel.

Companies employ a wide variety of yardsticks in determining the size of their gifts. The controlling factor is earnings. Reference is usually made to the previous year's outlay, though some companies allow for a "growth" factor which, they explain, enables them to meet the increasing number of requests.

Most companies check the size of contributions made by other local companies. In fact, instances are reported in which company officials get together and prorate among themselves the entire amount to be raised.

A Business Man's Prayer

HELP ME, O Lord, to remember that three feet make one yard, 16 ounces one pound, four quarts one gallon, and 60 minutes one hour. Help me to do business on the square. Make me sympathetic with the fellow who has broken in the struggle. Keep me from taking an unfair advantage of the weak, or from selling my self-respect for a profit. Blind my eyes to the petty faults of others, but reveal to me my own . . . And when come the sound of low music, the scent of sweet flowers, and the crunch of footsteps on the gravel, make the ceremony short, and the epitaph simple—"Here lies a man . . . one who was of service to others."

—Printing Monthly

What's Wrong with Plant Tours?: A Tourist's View

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THE LITERATURE AND discussion on the plant tour as an effective method of community relations has been extensive in recent years, and one has the choice of many specific techniques today in attempting to implement such a plan. Most of this material, however, has emanated from the pen of business executives concerned with the operation of such tours. Perhaps it might benefit these executives to have a few objective comments from the "opposite side of the fence"—the plant tourist himself.

Over a period of several years, I have utilized the plant tour as an integral part of my courses in industrial management, and as a result have gathered from both oral and solicited written comments of the students many specific ideas on the organizational aspects and the worth of these tours. On the assumption that "the proof of the pudding is in the eating," I would like to attempt a few generalizations from these comments. Though these thoughts were derived from only one source among the many groups utilizing the plant tour, that of the college business administration senior, they nevertheless have a degree of application to any form of the plant tour.

From the standpoint of the physical organization of the tour, several comments were rather widely expressed. The number of companies using a post-tour conference meeting far exceeded those that utilized a pre-tour conference, but the students have rather uniformly expressed the preference for a more extensive pre-tour briefing session, with only a short post-tour meeting for recapitulation. It was felt that a much clearer picture of the evolution of the tour was possible with such an initial session, with the desired length of time felt necessary by the students to accomplish this briefing ranging from 30 to 45 minutes. This length of time, of course, allows for not only a description of the physical aspects of the

tour but also material of a more general nature, which will be discussed below.

The need for small groups on the tour proper, led by skilled personnel familiar with all the major aspects of the plant, has been emphasized so frequently that further exposition seems unnecessary. In this respect, however, a rather uniform complaint of the tour proper was the excessive pace set by the group leader, which prevented the digesting of any one aspect. The responsibility for the pace of the tour must, of course, rest with the group leader. The tendency toward too fast a pace seemed to stem from a combination of the enthusiasm and the superior knowledge of the plant layout possessed by the group leader. In other words, if one were required to pass through the foundry day after day in the course of such tours, the route would become quite prosaic, but to the uninitiated following in his footsteps, each step would bring a totally new experience. The general consensus of the students seemed to lean toward a closer look at a fewer number of processes.

A word should be said regarding the questions of tourists. The most widely used method of answering such questions seems to be the "question period" after the tour, with the general group reassembled. The students' comments seem to indicate, however, that this is not the most effective approach. Human nature seems to rebel at such a comment as "Now, are there any questions?", and this rebellion seems to be in a direct ratio to the emphasis by company representatives on their desire to answer such questions. Any person taking a plant tour already assumes that the purpose of his visit is to clear up questions in his mind, and verbal statements on the part of the company personnel attempting to encourage this either provide no additional stimulus or, in many cases, have an adverse effect. The tour proper seems to be

the ideal place to answer such questions, for here there is a certain informal comradeship not present in the general conference. The possibility that the group leader may not know the answers would seem to be more than overbalanced by the proper climate for the question itself. The opportunity to stop at rest spots (company cafeteria, etc.) at frequent intervals would enhance this climate, and any company having the facilities might go further and provide small conference rooms at intervals throughout the plant for such stopovers.

The more pronounced the atmosphere of informality on the tour the greater will be the success of the tour itself. The tourist seems to resent in many cases what appears to be a marked attempt to show him what the company wants him to see, not what he wants to see. While the company is in a better position to evaluate what the tourist should see, it must not allow this to be paternalistically expressed to the tourist.

This informality, however, cannot stem from lack of planning, for nothing is less impressive than wandering through a plant with an obviously confused group leader. True informality requires a great deal more initial planning than does a formalized tour.

Another frequent comment concerned the plant employee himself. The students in many cases seemed to have gathered the impression, probably ill-founded in most cases, that the employees resented the tourists. This seemed to be more evident in the companies utilizing catwalks over the working area for the tours, but was frequently mentioned even in the companies providing for some personal contact. The few tours where the opposite reaction was expressed, that of being impressed with the friendliness of the employees, occurred only in the companies where a specific attempt was made to steer the students to certain employees noted not only for their competency but also for their gregariousness. It would seem wise in tour planning to take active measures to secure not only the coopera-

tion of the workforce but also the *appearance* of cooperation.

Although it seems a rather obvious aspect, tourists report a number of companies somewhat irresponsible in respect to the personal safety of the tourists. Few of the firms toured provided safety glasses, and frequently the students were allowed in hazardous areas. While the informality and intimacy of the tour may be threatened by too great an emphasis on safety precautions, it would seem that more thought is needed in many cases in balancing these opposing interests.

Let us return to the general conference at the beginning of the tour. Industry has been so permeated with the philosophy that it must "tell its story" that many organizations are overdoing it. Too frequently the conference degenerates into a laudatory session on the company and its vast contributions. If carefully presented, this can be a moving story, but if carried to an extreme, it can do a great disservice to the company. The ability of anyone to impress his ideas on another is usually in a direct ratio to the receptiveness of the other person, and this receptiveness is usually best achieved through appealing to the self-interest of the other person. In general the tourist is interested in how the company affects him. The first question in most of the students' minds, of course, concerns possibilities of employment with this company or a like company. Of course, many tourists will not be interested in this aspect, but will be interested in many other elements of the company's operations as they affect the tourist personally. While many of these personal desires are irrelevant to the story that the company desires to tell, they nevertheless must be taken into account if the real objectives of the plant tour are to be realized. In this vein, an excessive amount of statistical material can create a numbness of mind, whereas the personal elements of the company's growth may tell the same story in a much more effective manner. Though many people feel the Horatio Alger story of company executives is overplayed in many cases, the fact remains that the individual

can more easily obtain a picture of a company through such vicarious association than through a maze of empirical material.

The plant tour has come into its own in recent years as a highly effective element

of industry's community relations programs. Management, however, should not become so imbued with the potentialities of the program to the company as to lose sight of the desires and views of the ultimate "consumer"—the tourist himself.

Appraising Returns From Industrial Research

WHEN RESEARCH has been long-established in a company, the value is usually so well accepted that no formal justification is required. This is particularly true if the head of the company is technically trained or appreciative of technology; and if he lends guidance in the program and in translating the results of research into production and sales. However, there have been many cases where the department has failed through management's lack of understanding as to the functions and relations of research to the company's business and as to the results which have come out of research.

In a recent survey all members and a few non-members of the Industrial Research Institute were asked whether they had any system of appraising their work. About 85 per cent of the members replied, and there was a wide expression of interest in the subject. Only 25 per cent of the respondents had any pertinent answers, indicating that many directors have not considered the subject or else have felt it difficult or unnecessary to attempt any justification, particularly of a concrete nature.

A number of research directors have indicated that the effectiveness of research can be judged best by the general health of the company. Some justify research on the basis that it keeps them abreast of competition and that otherwise they might not be in business at all. Like Alice in Wonderland, it is increasingly necessary for companies to run faster just to stand still.

A number of companies have worked out formal procedures for appraising research. Generally these companies feel that the evaluation can be accomplished best by having representatives from Sales, Production, Accounting and Research sit in on the final appraisal.

The actual procedures vary widely. One company simply adds a certain amount to the cost of each article produced through research, and then credits this "royalty" to the department. A large chemical company selects a committee from Research, Production and Sales to determine the contribution of Research on a new product or on the improvement of an old one. Where Research has been responsible for most of the original ideas and their development, all future sales on that particular product are credited to the department. Where Research is but partially responsible, only a proper share of the sales is credited. If a major improvement is made on an old process, the higher yield or greater volume accrues to the Research Department.

Another company has evolved a more extensive method—perhaps the most detailed and precise of any we have investigated. A proposal on a new process is submitted to the factory manager by the research and development division. If the manager accepts the idea, any savings resulting from its adoption are ascertained by the accounting department and are allocated to Research. The "Index of Return" is the sum of three numbers—savings for one year on an improved

From an address by Allen Abrams before the Annual Meeting of the Industrial Research Institute, Rye, New York.

process; 3 per cent of the net sales on an improved product, for a period of one year; 3 per cent of the net sales on a new product, for a period of three years. This index is said to measure not only the effectiveness of research but also the ability of the factory to accept new ideas and of the sales department to sell new or improved products.

A lumber company uses another method: (1) Where the commercial value of research results can be estimated, credit is taken for the direct savings in costs and increased profit on any product. (2) Where positive well-defined action has been taken on the discoveries of research but where the actual dollar value cannot be calculated, it is assumed that the project is worth four times the cost of the research. (3) Where research has produced information of potential value for improving operations or where it has carried out surveys and studies for other divisions of the company, it is assumed that the resultant value is twice the cost of the research. (4) Miscellaneous services are valued at cost. No credit is given to projects which have failed to produce tangible results, even though they may have some future value.

A paper company employs a different approach. The annual sales and profits are totaled separately for research and non-research products. The net profit on research products is then compared with that of non-research or standard products, and the increment only is credited to Research. This increment is then divided by the cost of research for the year, yielding a quotient showing the dollars returned per dollar expended for research. No credit is taken presently for process or product improvement, nor for royalties on patents acquired through research.

IBM believes that its manufacturing men must know the capabilities of the

machines and methods that perform the operations for which each is responsible, and that whenever new technology is developed they must understand its implications and realize its possibilities in their own production. If changes in practice are required, they must know how to make correct applications and to take full advantage of the benefits of the new process. This requires an investment in education, but the company feels that the benefits derived from activities along these lines are well worth their cost.

The obvious question is, how long should credit be taken for profits from such research products? Generally this is self-answering, since other manufacturers come in with competitive products which may reduce profits to the point where the research products become "standard."

For those companies which are interested in working out a system of evaluation, the following suggestions may apply: Select a committee representing Sales, Production, Accounting and Research. Agree upon a formula which assigns to Research a fair share of the fruits of its labor. This may comprise some percentage of the sales or profits on new or improved products or processes. Since the amount and period of credit may vary widely, reasonable figures should be agreed upon. Additional accruals to Research may come from royalties and the sale of patents. In some cases the credit on a new development is made arbitrarily by assigning an amount which is some fixed multiple of the cost of research. Still another procedure is to select the total profit for the best year out of the five immediately following introduction of the product on the market. Where it is possible to segregate sales, the increment of profit on research products over non-research products may offer a fair method of evaluation.

—*Mechanical Engineering*, August, 1950, pp. 645:2.

TELEVISION has become a mass medium. Over 18 per cent of the nation's urban homes, rich and poor, now have television sets, according to a recent analysis of 10,000 home interviews, made by the Psychological Corporation. In the past year, set ownership among the lowest income group has more than quadrupled. By contrast, ownership among top income homes has less than doubled. In fact, 54 per cent of the homes with sets are in the lowest 60 per cent of urban households, socio-economically.

Applying Quality Control to Office Operation

THE FIELD of office management has traditionally lagged behind that of factory management in techniques of measurement and control. But office managers who have "discovered" quality control are beginning to reap the benefits of its application to their quality problems.

Quality control can do two big jobs for us: (1) It can help us save time and maintain quality in a given operation, and (2) it can help us improve the quality of the work we turn out. For example, Aldens, Inc., a mail order house in Chicago, has installed quality control programs throughout its entire organization, and quality has improved from 40 to 75 per cent in the various operating departments.

Control procedures or methods are based on the principle that quality of work is always subject to a certain amount of variation as a result of chance. Some stable system of chance causes is present in any given operation. Variation within this pattern is inevitable. The reasons for variation outside this stable pattern, however, may be discovered and corrected, and that is the area with which we are concerned.

On the quality control chart, if the plottings move out of the area of safe operation, and they move into the danger area, some corrective action must be taken or needlessly defective work will be produced. When these plottings are higher or lower than the control limits that we have established and represented on the chart after determining the limits of reasonable accuracy prevailing for the operation, we know that it is time to look for the causes underlying this change.

Before quality control is installed, we determine the current quality level of the particular operation in question by means of recording the results of a 100 per cent verification of the work involved. After

this determination has been made, we are in a position to make the decisions necessary to the establishment of a sampling plan that will fulfill the requirements set forth by the departmental and divisional management. These decisions are based on four factors:

1. What quality of work is acceptable.
2. What quality of work is unacceptable.
3. The risk or cost of verifying work which is already of an acceptable quality.
4. The risk or cost of not verifying work of an unacceptable quality.

At The Standard Register Company our quality control inspectors keep three factors in mind when performing this sampling operation—regularity, randomness and thoroughness:

1. *Regularity.* Samples are taken at regular intervals. They are not taken at the same time each day, but they are taken from every group of work units processed through the department being sampled. The regularity of the sampling also serves as a recurring reminder that quality is an ever-present problem requiring continuous attention.

2. *Randomness.* The inspectors try to select samples in such a manner that each item has the same chance of being inspected. If the control chart is to give an accurate picture of the quality level, the employees must never know which units of work are to be inspected.

3. *Thoroughness.* Thoroughness is insured in the sampling procedure by designating as inspectors only those employees who have full knowledge of all the details connected with the operation. In addition, instruction sheets, giving the details of the particular procedure under which he is operating are furnished each inspector.

The inspectors begin sampling the work and record the results on a data sheet. The number of units inspected and the num-

ber of defective units are recorded and then totaled for the over-all departmental performance. A record is kept on the description, frequency and responsibility for errors made. From an analysis of this data and certain computations, the control chart is established and is posted at regular intervals.

It is important that the results of samplings be posted on the control chart without delay. Unless this is done, action may not be taken quickly enough to avoid errors of the same type, and the purpose of the quality control program will be defeated.

In the Customer Records Department of the writer's company, all incoming sales orders have certain items of information translated from their alphabetical form into a numerical code. Inaccuracies in this coding operation can affect the work of six other departments in the office, and in some cases that of our production departments in the factory. By the use of sampling plans and control chart techniques, the quality level (or the accuracy) of one basic operation of this department was raised from 86.2 to 95.9 per cent, or an increase in efficiency of 11.2 per cent, effected in a period of two or three weeks.

In our Accounts Receivable Department, all invoices were being verified by a 100 per cent inspection after they had been placed in the outgoing mail. This 100 per cent verification was costly, and even so, some erroneous invoices were still mailed to our customers. By the use of quality control techniques, we were able to reduce the time spent in verifying these invoices by 47 per cent and at the same time, even with a reduced operating budget, to maintain the desired quality level. For some businesses, that's really sensational economy.

In installing quality control programs in any of our office departments, our first step is to explain the principles of the program to the employees involved. We outline the steps that will be followed in developing and setting the program in motion. Though these vary by department, this is the basic pattern they follow:

—By FRED E. SHELTON. *NOMA Forum*, May, 1950, p. 15:5.

1. We determine the current quality level of the operation.
2. We establish inspection stations where quality may be checked.
3. We devise sampling plans that give us a true cross-section picture of the work.
4. We design work sheets for recording inspection data.
5. We designate and instruct the personnel who will be quality control inspectors.
6. We set up the control charts to be used.

We also hold meetings with the employees from time to time as the program develops, in order to keep them fully informed of their progress.

The control chart, as adapted to operations of the writer's company, takes a positive approach by indicating the amount of good work performed, rather than the number of errors committed. We post the chart in a conspicuous place in the department and urge our department heads to be good managers by encouraging their employees to "break" the top of the chart.

A vertical scale along the left margin of the chart is a measure of the good work performed, termed "the percentage of efficiency." A horizontal scale along the bottom of the chart measures the time intervals of the sampling procedure. A solid black line through the chart indicates the current average quality level of the particular operation. A dotted or broken line in the chart indicates the control limit—or, as we prefer to think of it, the "take action" line.

An Employee Quality Control Rating Card covers each employee of the department. This card allows for comparisons between the individual's performance and the over-all performance of the group, and also for a classification of the errors made by each individual. Cards are posted on a monthly basis and can be used by the department manager as he sees fit—either to commend or reprimand employees.

Office management is responsible for the general administration of the program. This responsibility does not constitute a full-time job. One man need devote only part of his time to this type of work to achieve gratifying results.

Keeping Catalogs Up to Date

THE PROBLEM of keeping their general sales catalog up to the minute recently confronted Powers Regulator Company, Chicago. Increased sales activity created an increasing demand for catalogs. Coupled with the many price and product changes, this made it difficult to get up-to-date catalogs into the hands of salesmen and customers. Permanently bound catalogs were out-of-date in part before they left the bindery. Solution to the problem was found in the use of portable plastic binding equipment. Catalogs are now bound from stock pages as needed, right in the company's own offices.

The company reports that the essential simplicity of the portable plastic binding equipment—both the punching machine and the binding machine—permitted regular employees to change over quickly to the new method, and that the use of the equipment has enabled workers to make about three catalogs in the same time as one under the old system. Only small quantities of catalogs are bound at one time so that they can be distributed before becoming obsolete.

The flexibility of this binding method is exceedingly helpful in meeting special situations such as modifications in equipment specifications to meet customer requirements. The ability economically to bind attractive booklets of all sizes is especially convenient. Pages of different sizes, shapes and materials are readily bound in the same booklets. Photographs, charts, stiff divider pages, and such lie flat when the book is opened and turn easily on the smooth plastic rings. Reply cards and order forms may be conveniently included.

The plastic bound catalogs possess many of the advantages of loose-leaf binders. Bindings may be reopened at any time by placing the book on the binding machine and pulling the lever. Pages may then be added or removed as desired. Thus, catalogs, price lists and other booklets may be easily revised or brought up-to-date at any time after binding. For actual loose-leaf service, pages may be slot-punched on a special machine. These pages can be mailed to field representatives who can add them to their catalogs without special equipment.

—The Office 8/50

Dictating Machine Holds Secretarial Threat

DESPITE THE TIME-SAVING ADVANTAGE of using a dictating machine instead of employing a personal secretary, some executives still object to the "cold efficiency" of the machine. This fact was brought out in a recent survey by *American Business* of various companies in different parts of the country. Of the dozens of businesses contacted, only a couple reported that they do not use dictating equipment. The others listed almost every type of dictating machine on the market, from cylinders and discs to the more recent tape and wire recorders.

A general rule of thumb, according to the survey, was that top executives could make their own decisions as to their dictating methods. Junior executives, however, usually were expected to use a machine.

Missouri Pacific Railroad Company, St. Louis, Mo., operates about 200 dictating machines, and transcribing is done in a central department. These machines are the cylinder type, but the company also has a wire recorder and a tape recorder for recording talks by executives. Disc equipment apparently is popular with many business men. Executives of the Hitchcock Publishing Company, Wheaton, Ill., dictate on discs.

An executive of a well-known food company said that he had just completed a thorough study of dictating machines, because equipment was being purchased by his firm for shipment to branches in the Orient. In comparing types of machines, this executive stressed two major considerations: (1) if the machine is to be used in the same office day after day; (2) if the nature of the work requires portability. If the dictating equipment is going to remain in the same office, a cylinder machine is preferable. But if portability is required, or if direct mailing of the recorded voice is desirable, the disc machine should have first choice. One final point made was that the utmost attention should be given to the reliability of the manufacturer of the equipment.

—*American Business* 7/50

How to Organize a Company Library

MANY BUSINESS MEN think of a plant or business library as an unnecessary luxury. Yet an adequate and authoritative source of information upon which executives can draw is one of the prime requisites of modern successful business administration. Since public facilities seldom offer the individual and personal information a business needs, the plant library is the only practical solution. It is practical because it is relatively inexpensive, and it is valuable because it can provide information that may lead to the production of better goods at a lower price. In other words, the plant library can help management meet competition.

Two important questions arise in plant library planning. One: What are you going to include in the library? Two: How are you going to file the material?

A plant library should provide each department of the business with permanent fact sources. A dictionary, an encyclopedia, *Who's Who in America*, *Who's Who in Commerce and Industry*, *The World Almanac*, a guide to Government publications, and a copy of *The Census of the United States* are useful to every business.

In addition, the plant library should include the current trade publications, plus any other trade data and general market and business information available. It should list as well all the new patents applicable to your industry, the government publications, Census reports, survey responses, material tests, and other data that might be useful to any department in the plant.

Primary facilities for a plant library would include a suitable room and equipment for housing library material. A specially appointed person should be put in charge. A newly graduated librarian would be desirable, although a file clerk could take on the task temporarily. The equipment needed represents only a minor cost: five-drawer steel file cabinets for periodicals, papers and reports; and book shelves for the books and heavier catalogs.

For the necessary filing and cross-indexing, a card-index file should be set up. A card form for recording the contents of a magazine or making cross-references would be helpful. A library table and a couple of chairs afford centralized work facilities for users.

The best way to handle an index of media is to have a master file listing all material in the library; and separate files for each division, such as Magazines, Reports, Books, etc. The master file serves as a general reference and the smaller files as media reference.

No two plant libraries have the same indexing system or the same filing system, because no two plants are alike. The best that can be achieved is an ease of reference and quick availability of the material needed. Your librarian will be able to work out the 20 or 30 categories you will need for your own industry and company. When the system is worked out, a complete outline of the procedure should be drawn up and made available to every department of the plant.

Organize your plant library properly from the beginning. For this purpose, a combination of the numerical, alphabetical and chronological methods of filing has been worked out, known as the Dewey Decimal System. The Dewey System Abridged Decimal handbook may be purchased from the Lake Placid Foundation, Lake Placid, New York. This abridged listing will undoubtedly prove satisfactory for most business libraries.

Each department of the business should be asked to compile a list of the information it needs from day to day. From these listings a master list of sources containing this information can be drawn up and these items secured by the librarian. If your library subscribes to the *Industrial Arts Index* and *Public Affairs Information*, you will have a ready guide to periodical literature and can then order the issues containing the information needed.

When a magazine arrives in the library,

the librarian should look it over. If it contains articles of interest to top management, the auditor and the research engineer, it should be routed in that manner. For example, the magazine *Shipping Management* would probably be routed to the top official in charge of traffic and then to the shipping department. If it contained articles on rates, it might also be sent to the controller or cost department. When the routing has been completed, it should be returned to the library for filing.

The library can be a source of actual profit, as many large companies have discovered. If you were planning a plant expansion and were looking for a suitable locality on the Pacific Coast, your plant librarian could tell you, from already pub-

lished reference material, the construction costs prevailing, the labor pool and shipping and marketing facilities available at any location. She would merely refer to the government's Census reports, Construction Activity and Cost Indexes, and a few similar sources. A plant library can be made to pay off in extra dividends, too, because today's information often provides next year's markets.

You also generate a general feeling of good will among the employees by giving them access to a library for trade material which they probably could not otherwise obtain unless it were so sponsored.

Only after all the starting material has been filed and properly indexed will you be able to appreciate how valuable your plant library can be.

—GEORGE GLOVER. *The Office Economist*, Vol. XXII, No. 3, p. 8:3.

34 Million Telephones

TALKATIVE AMERICANS, who already have more telephones than the rest of the world combined, are clamoring for still more.

When World War II ended, the giant Bell System, which owns and operates 82 per cent of U. S. telephones, had over 2,000,000 persons waiting for telephone service. Today, after adding 12,500,000 new phones, it has 790,000 unfilled orders on its books. Total Bell subscribers have soared to 34,325,000—more than double a decade ago.

Over 74 per cent of all Bell System telephones are dial-operated today, compared with 65 per cent at the war's end and 55 per cent in 1940.

To handle all its new services and the host of new phones, Bell has already put in over 33,000,000 miles of wire since World War II and has put up some 3,800 buildings or extensions—and there's a lot more to come.

Bell is keeping step with TV, too. It has two systems by which it transmits television programs from city to city for the broadcasters—one a radio relay arrangement sending programs by radio waves, the second a coaxial cable for carrying TV programs.

—ROBERT H. SELLITZ in *The Wall Street Journal* 7/21/50

OFFICE MANAGEMENT SEMINAR

The Office Management Division's first series of intensive seminar discussions will be held, following AMA's Fall Office Management Conference,* on Wednesday-Friday, November 1-3, Hotel New Yorker.

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* See inside front cover for announcement.

How Can We Improve Labor-Management Relations?

By FORREST H. KIRKPATRICK

HOW CAN WE proceed toward a better era in labor-management relations? It may help us to answer this question if we will look at the causes underlying our problems. Here four factors seem to stand out:

1. *Mutual Mistrust.* There is no real sense of mutual trust or confidence between labor and management in American industry. Unions, for all their power, continue to be oppressed by the feeling that employers wish to destroy them. Employers are equally oppressed by the fear that the ultimate aim of unions is to take over control of industry, provided they do not bankrupt it first. We have, in effect, a kind of undeclared class warfare that is persistently denied by leaders on both sides. Neither side has any clearly formed affirmative program. Each is reacting *against* what it fears is in the mind of the other, rather than in terms of positive goals for the total economy.

2. *Conflicting Economic Theories.* There seem to be both genuine and opportunistic differences in economic philosophy, with both sides showing uncommon agility in adapting their economic arguments to the turns of the business cycle. When business is booming, employers are wont to rule out "ability to pay" as a factor in wages; when business falls off, the same employers beg the unions to take account of the red ink on their ledgers. When living costs are on the upgrade, the unions use this as a mainstay in their drive toward wage increases; when costs come down, they reach for new props.

Labor does not feel it is getting a big enough piece of the industrial pie and it asks more in the form of higher pay, shorter workweeks, and employer-financed welfare benefits. Industry argues that unless each worker produces more, there can be

no real improvement in living standards.

To the problem of wages has been added the sharp question of the degree to which industry is responsible for safeguarding labor against the hazards of sickness and old age. Debate on this question will likely continue through the years.

3. *Bargaining Defects.* What should be discussed when labor and management bargain collectively? Management maintains that to operate efficiently, it must have exclusive control over such matters as production, sales and management policies; labor seeks a greater voice in these areas on the ground that the security of union members depends on how the business is run. The cleavage has touched off an increasingly acute battle over the establishment of boundaries for collective bargaining.

4. *Pattern Bargaining.* Recent labor troubles in the basic industries stem not from any specific breakdown of collective bargaining, but from the fact that wages for millions of workers in scores of industries have come to be fixed through the establishment of a "wage pattern" in a key industry. A break-through by labor in any key industry affects contract standards in all sections of our economy and has repercussions on the whole level of prices and industrial activity. The net effect of this development is that a single big company and a single big union are able to call the economic tune to which all America must dance.

We must look for solutions and constructive action on these problems in two areas: First, we must seek improvement in personnel relations at the direct operating level. Second, we need a government program for protecting the national welfare against crippling strikes that stem primarily

From an address before the 1950 annual meeting of Business Forms Institute, New York, N. Y.

from inability to agree on wage patterns.

It is at the plant or operating level that we must seek the key to greater trust and confidence between employers and unions. Failure to infuse shop stewards and foremen with either the desire or the technical ability to devise workable solutions for plant problems is a frequent cause of explosive disputes in plants where industry and labor pride themselves on amicable relations at the top level.

A pioneer survey by the National Planning Association, still in process, has indicated some of the elements that make for successful labor-management relations in a plant:

1. Full acceptance by management of collective bargaining and of the union as an institution (generally accompanied by a belief on management's part that a strong union is an asset).
2. Recognition by the union that the success of the business is indispensable to the welfare of its members (hand in hand with full acceptance of private ownership and operation).
3. Existence of a strong, responsible and democratic union.
4. Avoidance by the company of any interference in the internal affairs of the union, or any attempt to alienate the workers' allegiance to the union.
5. A "problem-centered" approach to negotiations, with both sides spending more time on solving concrete problems than on arguing about "prerogatives" or abstract principles.
6. Prompt settlement of grievances through a flexible procedure.
7. Widespread union-management consultations and a highly developed system for sharing information, with the union used as a two-way channel for communication between employer and employee.

The big problem that needs legislative solution concerns what government can or should do to safeguard the public interest where strikes threaten disaster for large sections of our economy. The development of a sound national labor policy calls for abandonment of the use of government as a crutch or club by either party and calls instead for confining government intervention to genuine emergencies of a national character. When such an emergency arises, there are three ways in which government might proceed: (1) By clamping down on labor through the issuance of in-

junctions; (2) by clamping down on management through confiscation of plant; or (3) by appointing a fact-finding panel of the type utilized in steel. The latter method has fewer faults than either of the other two.

It would seem desirable to have legislation empowering the President to call on both sides in crucial disputes to maintain the *status quo* for 60 days, during which impartial and competent fact-finders would formulate their recommendations and submit them to the parties. As a spur to bargaining at all stages of the fact-finding process, the panel should be clothed with legal authority to mediate instead of relying exclusively on the quasi-judicial function of making recommendations. However, the final recommendations of the fact-finders would not be legally binding. Either side should be free to reject them after a genuine effort to work out an agreement based on the board's report. The pressure of public opinion would be the sole avenue of enforcement.

With such a procedure established by law, the likelihood that a presidential board's report would be cast aside by either party would be greatly reduced. If it were, the President could seek specific emergency legislation from Congress to break the impasse.

It is certainly clear that investing presidential fact-finders with authority to make recommendations on wages and other key issues is itself an impediment to free bargaining. So long as one party or the other feels it can get a better deal from a panel than it can through direct negotiations, the bargaining process is bound to suffer. On the other hand, experience under the Taft-Hartley Act has indicated clearly the futility of fact-finding when it is not accompanied by the power to make recommendations. The eighty-day injunction period established under the present law is simply a period of stalling on both sides, at the end of which neither side is nearer a solution than before.

A more compelling consideration is that, whether we like it or not, wage levels are being determined on a pattern basis that reaches into all corners of our economy. In a sense, we are developing a controlled

economy with control vested in a relatively small group of industrial and labor leaders. Under these circumstances, a strong affirmative case can be put forward for transferring the decision on such matters to a panel appointed by the man chosen by all the people as their Chief Executive.

Unions with many unhappy memories of judicial persecution in the days when courts were open allies of employers in smashing unions are opposed to any formula that involves the use of injunctions. As an alternative, they have given their blessing to Federal seizure of strike-beset industries. To the extent that such a plan would involve direct Federal negotiation of new labor

contracts, it would wipe out all pretense of free collective bargaining. The fact-finding method, coupled with mediation, is not only more equitable on its face but offers much greater assurance of independence for both sides.

There is no foolproof formula for achieving industrial peace and sound labor-management relations. There will always be men on both sides who are short-sighted and obstinate enough to upset any plan that might be devised. The only dependable solutions, therefore, will be those hammered out through better and more direct relations between labor and management. These solutions must be in terms of teamwork and thoughtful planning.

A More Effective Personnel Job Through the Employee Utilization Concept

MICHAEL G. BLANSFIELD*

IN OCTOBER, 1948, the Director of the Area Military Government Personnel Program in Berlin, Germany,[‡] and his staff began to lay plans for the implementation of a new concept in the area personnel program. This new concept, "Employee Utilization," was brought into being by the realization that it was necessary, in the interests of efficiency and economy, to decentralize personnel performance further through a revision in the method of function of the personnel office. The personnel program for the area at that time embraced some 25,000 employees of approximately 150 different American organizations.

The technical staff of the Area Personnel Office began meeting in November, 1948, for the purpose of developing methods to implement this new concept without obstructing the work flow of the organizations they serviced.

[‡] The position held by the author at that time.

* Director, Personnel Audit Services, Los Angeles, Calif.

A direct result of these conferences was the determination of the need for more efficient and more organized assistance to line supervisors. The common practice had been to give the supervisor advice on his problems purely from the viewpoint of the technical field (i.e., placement, training or employee relations) which the assisting specialist happened to represent. One immediate objective of this new program was to insure that the day-to-day personnel assistance given line supervisors would be coordinated. The final decision was that the number of specialists contacting the supervisor would be reduced by a consolidation of functions within the Personnel Department. It was further decided that specialist assistance would be brought to the supervisor and would be made available at frequent and regular intervals.

One important decision that was made during the initial discussions concerning implementation of the program was that

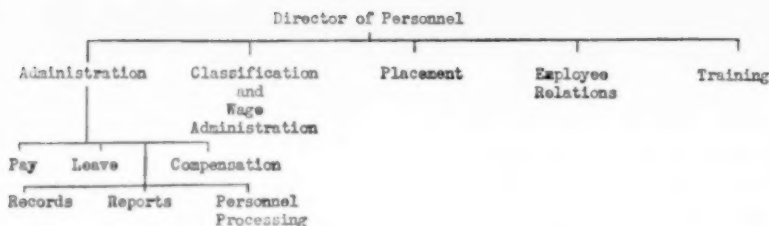


FIGURE 1. OLD ORGANIZATION STRUCTURE

the "low-pressure approach" would be used in installing the program, *i.e.*, the program would be installed without publicity or announcement to line supervisors or management (other than formal clearance from top management). This approach prevented much of the resistance to change which might have been aroused by a publicized program.

Before initiation of the Employee Utilization Program, the organizational structure of the Area Personnel Office had followed a pattern which was typical of most government personnel offices and many personnel departments in private industry, as shown in Figure 1.

The final staff decision was to integrate the Placement, Employee Relations and Training Sections into a new section—the Employee Utilization Section. The Administration and the Classification and Wage Administration Sections were retained intact with no change in their duties or responsibilities, as shown in Figure 2.

The decision to reorganize in this fashion

was based upon careful consideration of several factors:

1. Both Employee Relations and Placement involve similar techniques, such as interviewing and the interpreting of employee evaluations, work histories and test results.
2. Both Training and Placement require analysis of jobs and a knowledge of specific job skills and job requirements. Both fields used tests or other methods to determine employee aptitudes and achievement.
3. The average classification specialist might have a difficult task in bridging the gap from applying established classification systems to analyzing varying problems without set solutions.

The new Employee Utilization Section was to be composed of a chief, who would be responsible to the Personnel Director for the operation of the Section; 50 Employee Utilization Specialists who would each be responsible for servicing an organization or organizational segment of from 300 to 500 employees; and two clerical assistants.

One of the problems confronting the staff at this point was the question of just

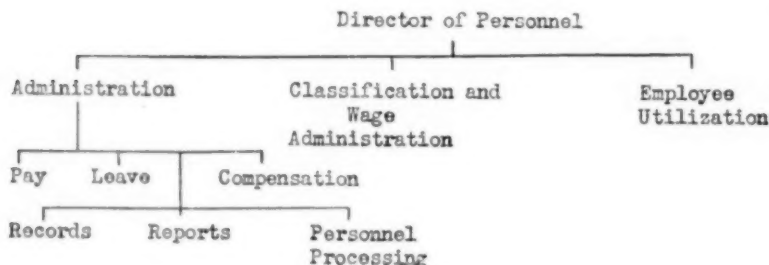


FIGURE 2. NEW ORGANIZATION STRUCTURE

how much assistance the Employee Utilization Specialist should render the line supervisor without actually usurping any of the supervisor's duties. It was finally decided that the specialist would perform the following tasks completely: (1) Recruit; (2) make the initial selection (including testing); (3) provide general orientation (as distinguished from specific orientation to be given by supervisor); (4) assist the employee to get settled; (5) furnish instruction when the supervisor is not able to do so; (6) counsel employees when the supervisor is not able to do so; and (7) attempt to place surplus employees.

In addition to these tasks which the specialist was to perform himself, he was to assist the supervisor to perform efficiently his personnel duties, particularly those related to: (1) Determining minimum qualifications for new jobs; (2) interpreting personnel office selection data; (3) interviewing; (4) orientation; (5) developing job breakdowns and standards of performance; (6) techniques of instruction; (7) evaluating performance; (8) developing weak employees; (9) delegating responsibility; and (10) handling complaints.

Due to limited recruitment facilities and the desirability of retaining experienced and competent personnel, the decision of the staff was to retain, whenever possible, the specialists of the old Placement, Training and Employee Relations Sections. In screening the 90 specialists available for this conversion, the following criteria were established as a partial selection guide: (1) Versatility of the individual as evidenced in previous work history; (2) ability to work in close cooperation with others; (3) ability to give equal attention to a number of varying problems; (4) proved judgment of sufficient caliber to enable the individual to realize when a problem is beyond his depth and he must seek qualified assistance; (5) ability to deal successfully with others in day-to-day contacts; (6) knowledge of basic psychological principles. Final selection was based upon test results administered at the end of the formal training program given all spe-

cialists selected for the new section.

The personnel selected were in the majority of cases familiar with only the superficial details of the work in the two sections to be combined with their own. This necessitated a vigorous training program, which was launched in January, 1949. The available specialists were divided into three groups, each group to be trained in succession. Each group, composed of 30 specialists, was then divided into three groups of 10 each.

The training is best designated as "cross-training" since each group of specialists conducted that part of the training which covered its particular field. Each group was given a total of 30 hours, one hour a day, using the conference method. By holding the training to one hour a day and staggering the training of the groups over a three-month period (January to March, 1949), interruption in the work flow of the personnel office was avoided.

Following completion of the specialist training in March, 1949, each of the 50 specialists selected to carry on the program was assigned an organization or an organizational segment which gave him responsibility for approximately 500 employees and their supervisors. Actual experience during the summer of 1949 indicated that a group of this size could be serviced efficiently by one specialist, *providing the group was in the same general work area.*

During the month of April, 1949, the records previously maintained by the Placement, Training and Employee Relations Sections of the Personnel Office were turned over to the specialist in charge of each organization, and all pertinent information contained therein was transcribed onto one consolidated records form called the Employee Summary Worksheet.

Each Employee Utilization Specialist was instructed to organize his duties in such a manner as to be able to spend 50 per cent of his time each day in the Personnel Office—the remainder of his workday to be spent with the various line supervisors at the work site of his assigned organization.

The immediate benefits of the program were confined chiefly to economies in the operation of the Personnel Office itself. It will be noted, however, that these economies were substantial insofar as they included an immediate drastic reduction in the staff. The most outstanding of these benefits were: A reduction of 45 per cent in the personnel staff engaged in placement, training and employee relations; elimination of 40 per cent of the records formerly maintained by the Placement, Training and Employee Relations Sections; simplifications of the administrative paper flow throughout the Personnel Office; and reduction by 50 per cent of the number of personnel specialists contacting line supervisors.

Long-range benefits, which began to become apparent during the course of the succeeding three months, included a 15 per cent decrease in the number of recorded grievances. This reduction was attributed primarily to the increased efficiency of the line supervisors in handling grievances as they arose.

During this period the Personnel Office was consulted more often than formerly

by all levels of management in regard to personnel problems which in the past had been passed up the chain of command for decision. This willingness to utilize the services of the Personnel Office more fully could only be taken as evidence of a growing realization on the part of management of the place of the Personnel Office in the total production plan.

The number of employees bringing their problems directly to the Personnel Office in the period May through July, 1948, had been about 220. During this comparable period in 1949 this number had decreased to approximately 60. In large measure, this decrease appeared to be due to more efficient dissemination of personnel policies at the shop level. The Employee Utilization representative was now able to bring the correct policies to the supervisor's attention at the time he needed this information.

Unfortunately, it is impossible to evaluate fully this program in the relatively short time it has been in effect. The preliminary information on its immediate results as set forth above, however, indicates that it may well be a concept which can be of value to business.

Blood for a Day with Pay

AN AGREEMENT WAS SIGNED RECENTLY between Packard Motor Car Co. and United Auto Workers (CIO) which provides for labor-management cooperation in setting up an employee blood bank, with the help of the American Red Cross. Under the agreement, a "Packard account" will be set up in Detroit's Red Cross blood bank. Employees and their families may draw on it, without fees, if they need transfusions. Moreover, employees may donate for the account without inconvenience or loss of pay.

Employees who want to contribute blood make an appointment, during regular work hours, at the Red Cross blood-donor center. They report to the center, give their blood. Then they can go on home—or anywhere else. They don't have to go back to the Packard plant, but they get paid for their full shift.

—*Business Week* 6/17/50

THE INCREASE IN SICK LEAVE PLANS might lead to increased absenteeism in many plants. To discourage abuse of these plans many companies are now setting up strict controls to check on every absentee. Some firms now make it a rule not to pay any employee out for alleged illness unless he has called in and described his illness to the plant nurse or doctor. At Merck Chemical Co., every employee who stays out even one day must report first to the medical department.

—LAWRENCE STESSIN in *Mill & Factory* 3/50

62 Years of Profit Sharing at Procter & Gamble

WILLIAM G. WERNER

The Procter & Gamble Company, Cincinnati, Ohio

THERE ARE several viewpoints from which business executives can look at profit-sharing plans for employees. One is to assume that the employee has an inherent right to share in the profits of the organization for which he works. Another is to consider the profit-sharing plan as a sort of incentive for greater production. Still another is to assume what you might call the paternalistic approach, which considers the business as the benevolent father of all its employees.

There is still another viewpoint of profit sharing, however—as an answer to the question, "What is best for the business?" It is this attitude of management toward profit sharing that I should like to discuss.

The best way to understand our point of view on profit sharing, I believe, is to see how it fits into the company's general philosophy of management's relation to its employees. Procter & Gamble adopted a profit-sharing plan back in 1887. Though the years have brought changes and additions to our employee plans, never really has there been any change in the basic philosophy or attitude toward employee relations espoused by William Cooper Procter, champion of the original plan, over 60 years ago.

Procter & Gamble's point of view toward management's responsibility to employees can be summarized by these five goals for management:

1. A successful business—one that earns regular profits.
2. Steady employment.
3. The opportunity for the individual employee to develop to the fullest extent of his abilities.
4. The chance for the employee to become a capitalist himself (by becoming a part owner of the business, or accumulating bonds, savings, etc.).
5. Good working conditions.

A profit-sharing plan, lined up against these goals of management's responsibility,

must therefore answer questions like these:

1. Can the proposed profit-sharing plan accomplish important industrial relations objectives and still guard that necessity for profits to the investing owners of the business?
2. Is profit sharing consistent with the objective of a fair and reasonable wage or is it conducive to the building of a feast-and-famine business—an up-and-down pattern of production?
3. Will the proposed profit-sharing plan stimulate the employee to develop his capabilities or will it simply tend to make him soft and easy-going, looking forward not to hard work and further advancement, but to early retirement?
4. Will the plan contribute materially to the ability of the employee to become a capitalist, so that after years of service he can honestly look back at the company in appreciation of what it did in helping him save and invest for the future?
5. Will the plan really contribute to the employee's feeling that he is working under good conditions, or will he be likely to feel that the plan is merely a sop thrown to him in lieu of more important considerations?

The fact that a guaranteed employment plan has been successful in Procter & Gamble for over 26 years is offered only to emphasize the idea that employment stabilization can work. Such a socially desirable employee plan, successful in one business, we submit, deserves study by all forward-looking executives. Whether any particular organization can stabilize its employment to an important degree is, however, a problem which must be worked out by the heads of that business. In the same way, we hasten to emphasize the fact that our profit-sharing plans are tailored to meet our needs as we see them.

From the first, the company recognized the need to help the employee in the lower brackets, say under \$3,000 per year, through profit sharing. In the 1930's, it

From an address before the Council of Profit Sharing Industries, New York City, December 2, 1949.

became more and more evident that the employee in the higher salary brackets would also have trouble building up a real nest egg. About 1943 we made alterations and amplifications in our plan so that all employees, not just hourly-paid employees, could participate in a true profit-sharing plan.

Under our older plans, an employee's interest in the company's profits might be said to spring from the fact that the plans made him a shareholder of its common stock. Under the plans now in effect, a share of the returns to all employees covered by these plans is directly dependent upon the rate of net profits of the company. Today all regular employees, no matter what their pay or salary, are eligible after a stated period of months to participate in a plan of compensation and/or retirement that embodies profit sharing in some form.

The plans call for contributions by the company which are based upon consolidated net profit for any fiscal year before federal income taxes, over and above a minimum consolidated net profit

figure. They provide for increases in the profit-sharing dividends paid employees, according to a scale which sets up a greater profit-sharing dividend when consolidated net profits of the company increase.

We believe our plans represent *incentive*—not in its narrower sense, as related to the direct production of additional units or better quality units, but the incentive that makes a man realize that the progress and development of the business results in something for *him*—that what is good for the business is good for him, just as though he were standing behind the counter serving his own customers and ringing his own cash register.

That kind of incentive thinking, if properly stimulated, we believe, results not only in a different attitude by employees toward expenditures, toward protection of the company's property, and toward the quality of its output. It results in a heightened, sharpened *esprit de corps* that distinguishes one business from another the moment you step inside a plant.

Getting Results with Industrial Movies

By ALEXANDER I. NEWMAN, Executive Vice President,
Precision Scientific Company, Chicago, Ill.

ONE OF THE most powerful media for driving home a company's story, a special message from management, or specific information about a method or process for doing certain types of work, is the industrial film. Dean Rulon, of the Harvard School of Education, in experiments conducted with the use of films, has found that the use of moving pictures in teaching is 20 per cent more effective than teaching without them, and that in terms of retention of subject matter, the gain in using films is over 38 per cent.

Advantages. Films can simultaneously bring to bear a relatively large number of stimuli to sight, hearing, emotion, reason and other faculties. They lend authority to whatever a supervisor or trainer has told his group. The principles involved in plant instruction or discussion are somehow made to seem more important, more basic, more universally accepted and more necessary when the individual sees them projected in pictures and words. Films are excellent "clinchers."

Abstractions, such as the concept of in-

From an address before the annual meeting of the Scientific Apparatus Manufacturers Association.

terdependence of employee and employer, can be given life and meaning through the use of films, since many vivid and specific illustrations can be shown which put the abstract concept into concrete, everyday terms. Teaching of this kind is most difficult when words alone are used. Films can say with impunity many things which an instructor or even the top executive of a company might hesitate to put into words.

Precautions. A great number of poorly prepared films are now used in training or demonstrating to employees. It is better not to use a film than to use a poor one. Select films with care.

One of the most common faults of showing training films is overemphasis, by means of exaggerated action and words, in an effort to give a point stress. As a result, both the film and its lesson seem absurd or unreal and impractical. Avoid overemphatic films.

Select films to fit the ability and experience and the mental makeup of the groups observing them.

Physical Arrangements. The movie room should be pleasant and well ventilated. Chairs should be comfortable. It is also important that they be placed so that every individual can see without too much strain. The portion of the room around the screen should be darkened to create sufficient intensity of light on the screen for everyone to see the film clearly. Amplifiers and speakers should be of the best quality so as to project sound without distortion.

To assure greater attendance, the movie and the time of showing should be publicized as much as possible, either through bulletin boards or bulletins passed out the day before.

Early in 1939, we at Precision Scientific Company instituted a movie program. Most of the films shown at that time were for production supervisors and engineers, to help educate them in technical matters. Occasionally during the war we would show war films released by various governmental agencies. However, because of our lack of physical facilities to accommodate our entire organization, the program was handicapped until we moved into our new plant in 1946, at which time

a section of the plant approximately 60 by 100 feet was set off as a cafeteria and lunchroom accommodating about 300 people.

After the cafeteria was available, and with a 45-minute lunch period, we were able to utilize movies to their maximum extent. Our program is to show a movie every Wednesday. Most movies run anywhere from 20 to 30 minutes, giving the employee ample time to eat his lunch before or during the showing. We use a 16 mm. sound projector and screen, with several loud speakers. Operation of the projector is taken care of by one of the employees of the engineering department.

Ninety-nine per cent of the films we have shown have been loaned us free of charge, the only requirement being that we submit a report of the showing and prepay the charges when returning the films. The best source of free films is the catalog published by the Educators Progress Service, Randolph, Wisconsin. It lists the titles of 1,632 free films covering a varied range of subjects. It is published yearly at a cost of \$5.

In order to determine the reaction of our employees to our movies, we conducted a survey, the results of which proved very interesting. Over 64 per cent indicated that they watch the movies regularly; 23 per cent said they watched them occasionally. Over 90 per cent said they like movies, with 76 per cent indicating that they like movies once a week, 10 per cent every two weeks, and 7 per cent every four weeks.

In showing movies to our employees, we think we have accomplished the following:

1. Enlarged the scope of employees' thinking by showing them what other organizations are doing.
2. Aroused employees' interest in combating social, racial and religious discrimination.
3. Created a greater interest on the part of the employee in his own work by showing films, some of the scenes of which have shown Precision Scientific Company equipment. This created the feeling of "belonging" to a company that is performing a valuable service for others.
4. Stimulated a desire in each employee to

- improve his own work by observing methods in other plants.
5. Attempted to instill a greater feeling for the peoples of this land through the medium of patriotic films.
6. Created better understanding in the organization by showing pictures on human relations.
7. Caused our employees to become more safety-minded.
8. Caused our employees to present more valuable suggestions to our suggestion committee, for which they have been handsomely paid by movies showing manufacturing operations in machine shops, sheet metal shops and instrument and assembly shops.

"Wise Owl Club" Promotes Eye Safety

STRESSING THE NEED for reduced eye accidents on America's production lines, Secretary of Labor Maurice J. Tobin recently enrolled the 1,000th industrial worker in the Wise Owl Club of America, an eye-safety organization sponsored by the National Society for the Prevention of Blindness.

The Wise Owl Club, founded in 1947 at the St. Louis plant of the American Car and Foundry Company, has been sponsored by the National Society for the past 22 months. To be eligible for membership, a worker must prove that his goggles saved him from partial or complete blindness when an accident occurred.

After presenting a special certificate to the 1,000th Wise Owl—a machinist at the Phoenix, Arizona, plant of the Reynolds Metals Company—Secretary Tobin declared:

"An estimated 300,000 eye accidents occur each year in American plants. Besides their terrible cost in human suffering, these eye accidents also slow down production in three ways:

- "1. By stopping work when the accident occurs;
- "2. By reducing employee morale.
- "3. By often causing the loss of a skilled worker for days, weeks, or even forever.

"Of the 1,000 Wise Owl members, 330 would be completely blind today if they had not been wearing goggles when an accident occurred. The 770 others would have the sight of only one eye.

"Therefore, by encouraging the wearing of safety glasses on the job, the Wise Owl Club has an economic as well as a humanitarian value. By preventing eye injuries among industrial workers, it is also helping American industry turn out more consumer goods to prevent inflation on the home front, and more equipment to check aggressors on the military front.

"The Wise Owl Club is enrolling an average of 70 new members a month. There are now Wise Owl Club chapters in 223 plants in 34 states, Hawaii, and Canada."

Blue Mondays Are Really Blue

THERE IS SOMETHING TO THAT IDEA of "Blue Monday" so far as labor output and absenteeism is concerned.

On Mondays the average hourly output of British industry is lowest, and more employees are away from their jobs, according to Dr. W. Baldamus, sociologist of Birmingham University, Birmingham, England, in a recent address before a meeting of the British Association for the Advancement of Science.

In general, both turnover and absenteeism decrease with length of service, Dr. Baldamus found. Many of the reasons for poor or good performance by workers are linked to the industrial situation and attitudes toward work and leisure, instead of such general concepts as practice, interest, willingness, and boredom.

Accidents in British mines fluctuate with the way the nation is feeling and reacting. Dr. T. T. Paterson, anthropologist of Cambridge University, reported at the same meeting. Accidents, absenteeism, production, strike intensity and other human conditions in the mines vary with highway accidents and strikes throughout all industry.

—New York World-Telegram and Sun 9/5/50

How to Run Employee Contests for Improved Performance

THE EMPLOYEE contest is shaping up as the top 1950 technique to spur efficiency and production savings. Management is finding that the appeal to the worker's competitive spirit plus the incentive of attractive prizes really gets results in the form of better products, less waste and more profitable operations.

Contests take many forms. Some merely try to make the worker quality-conscious, to emphasize the tie-in between good workmanship, company prosperity, and employee job security. Others seek to attain specific goals in quality improvement—definite gains over a base period. Still others work for a reduction of waste, less spoilage, fewer reworks.

Contests for greater employee efficiency and company prosperity can get good results in plants of all sizes and industries. In retailing and service fields, for example, efficiency may be translated in terms of appearance, courtesy and promptness. Here are a few principles to follow that will help make any contest a success:

1. *Don't* decide on the kind of contest to run until you have consulted foremen, supervisors and department heads. These people know the weak spots in operations, are also closer to the rank and file and more likely to judge their enthusiasms correctly. Their ideas will help.
2. *Plan* the contest from beginning to end. Many contests which start off with a bang fizzle out because ways of keeping interest high have not been devised ahead of time.
3. *Brief* foremen and supervisors well on contest rules and on their own part in its operation. The success of any contest depends largely on the enthusiasm shown by management in encouraging all eligible employees to participate. Give the supervisor some special recognition where a member of his unit is a winner.
4. *Consider* merchandise as prizes instead of cash awards. A radio, silverware, a refrigerator, can be displayed for weeks in the plant and does much to keep employees' interest whetted.
5. *Don't* neglect good advance promotion and "gimmicks" to keep interest strong while the contest is in progress. Many companies rely on a few posters and a

few perfunctory announcements to get a good response, when in nine cases out of ten such tactics won't work.

Two recently-completed contests produced good results and their details are worth study by any company that is considering running a contest:

SKF "Quality Improvement Campaign." Backbone of this six-month program was interdepartmental competition among the productive units in each plant. A prize was awarded each month to the department making the greatest quality improvement over a base period. A lucky-number drawing was held in the winning department to see which employee would take the prize home. Each month a large "Blue Ribbon" plaque was placed in the department with the best record for the previous month. At the end of the program, the department that won the plaque the most times was awarded permanent possession.

Some of the "gimmicks" that helped make the SKF contest a success:

1. During the campaign, a large scoreboard was on display in the plant showing the relative status of each department in the contest. Every week percentages were posted showing the progress each unit was making.
2. A prize was awarded each month for the winning slogan on quality improvement. These plugs for better workmanship were displayed on "slogan hats" and slogan book matches distributed to all employees, also publicized on posters and decals throughout the plant.
3. Extra cash award each month went to the employee submitting the best suggestion on quality improvement. This award duplicated the sum originally granted.
4. The foreman of the department that won the campaign received an "Oscar." And each employee in the department was awarded a "Certificate of Merit" in recognition of his share in the victory.

Eastern Air Lines "Success Contest."

Awards were given for the best letters on "How I Can Help Make My Company Successful—On The Job—Away From The Job." All employees below the supervisory level were eligible. Outstanding was the systematic and thorough manner

in which the contest was run. Managers, foremen and supervisors were made key men in the operation. Each received a Contest Kit which contained a "Plan Book" explaining the contest and the promotional material to be used to keep employee interest high during the month-long contest period. "Gimmicks" included:

Calendar of Events—for supervisory use only, gave timetable for use of promotional material. This calendar proved a clever control.

"100 Per Cent" Scroll—awarded to members of the supervisory staff who had 100 per cent participation in the contest from those under their supervision.

"Thought Starter" Booklets—two pamphlets designed to give employees ideas for their letters, also to provide them with

—*Employee Relations Bulletin*, National Foreman's Institute, Report No. 234, May 24, 1950, p. 6:4.

some facts about the company and its history. These were sent to employees at different times during the contest period.

"Teaser" Posters—displayed during the week preceding start of the contest. Designed to stimulate curiosity, they gave no actual information about what was to come.

"Progress" Postals—series of four cards, one distributed each week to employees by supervisors. Postals were to be filled out by each employee and sent to the Personnel Relations Department to acquaint it with the employee's progress in the contest. Employees sending in these postals had an extra chance each week to win a special prize through a "Lucky Name" drawing.

"Acknowledgment" Postals—sent to each employee as soon as his entry was received.

"Success Story" Newsletters—sent to employees' homes at intervals during contest to stimulate interest further (four letters scheduled).

Stimulating Family Readership of the Employee Publication

THE EFFECTIVENESS of home readership of employee publications is a subject that always comes in for its share of pro and con discussion. Some editors and their managements believe in appealing to the home folks, while others do not. Sometimes there is even a difference of opinion between the editor and management within the same company.

Do expenditures of the editor's time, the publication's space, and the company's money on the interests of the folks at home pay off—and if so, how? An examination of hundreds of employee publications gives evidence of a trend toward increasing the number of features and news stories directed solely to the home—mainly to women.

This slanting is natural enough in publications where a good percentage of the employees are women. It is a convenient and desirable slant for publications in the food, textile and other industries whose products are used in the home.

The appeal to the home is not natural,

at first blush, to those publications edited for a predominantly male employee audience. But it does exist, and there is sound evidence of its value.

Family life is the core of all human relations. Psychologists have shown that the family is a major influence in determining the course of any member of the group, including the worker. The editor of an employee publication who realizes this fact and works with it will reap the long-run benefit of a kinder feeling toward the company. In labor crises, in reducing absenteeism, in safety education and in promoting general morale among workers, a favorable influence at home can aid in establishing employee understanding and acceptance of company policies.

The following examples show what editors of employee publications are currently doing to capture family interest.

Employees Bulletin (Weirton Steel Co., Weirton, W. Va.): Recently ran a 4-page feature on the Scouts, "Better to

Build Boys Than to Mend Men," highlighting the home tie, as do the features, "Embracing All Women" and a puzzle page for young readers. Thus, the *Bulletin* rounds out an almost complete appeal to specific groups in the home audience. Numerous pictures of children and pets are always published to build up appeal to the home audience. By acquainting the teen-age group with news about the company, Weirton feels that an important step is taken toward dispelling future misconceptions about private enterprise.

Atlantic Magazine (Atlantic Refining Co., Philadelphia, Pa.): "Mostly for Women" is another way of appealing to the home interest. In this section, suitably illustrated with photos and artwork, from four to six pages are devoted to homey subjects. The significance of this material is indicated by the fact that it is handled by a full-time Women's Editor, Betty Cregar.

Avisco News (American Viscose Co., Marcus Hook, Pa.): Letters to the editor are one thing, but the *News* in the March, 1950, issue ran a "Children's Mailbag" with letters of appreciation received from prize winners in a Christmas contest. For general home interest the *News* features "Hints for Homemakers" and fashion stories advertising Avisco rayon. "Hints" range from how to brush paint to remaking old furniture into new designs, while the fashion stories have the double purpose of encouraging product use and style-consciousness.

Standard (Lever Bros., New York, N. Y.): Another example of promoting the product while gaining home readership is used in the feature, "From the Famous Spry Kitchen." It contains a full page of recipes featuring one contributed by a different employee each month.

Enka Voice (American Enka Corp., Enka, N. C.) features a Woman's Page,

a Baby Picture Page, and a monthly page, "For Our Farmers and Gardeners," replete with timely and helpful information for the back-yard flower or vegetable grower.

GM Folks (General Motors Corp., Detroit, Mich.): The April issue of *Folks* contains a new "Small Folks Page" with puzzles, games and creative suggestions. Rounding out the family appeal are two 2-page features, "Listen Ladies" and "Pictures from GM Folks."

Chester Ford News (Ford Motor Co., Chester, Pa.): This tabloid gives the back page over to recipes and household hints under the title, "Paging the Home."

There is more to this home-interest trend than first meets the eye. Industrial editors are probing deeper beneath the surface of basic emotional appeals in their use of editorial material. Encouraged by far-sighted managements, these editors are really tackling the human relations and communications problem at "grass roots"—and are getting results.

Again, the reading habits of people who work for a living are undergoing a slow but phenomenal change. One point of continuous optimism in this cock-eyed world is the employee publication. The fourth estate in general, including newspapers, magazines, radio, television, movies and labor press, all wail and gnash their teeth about the evil things of life—murder, divorce, atom bombs, cold wars, labor strife, depressions and what-not.

On the other hand, employee publications are unfailingly cheerful. Sometimes dull, stolid and plodding, lacking in many qualities which commercial editors consider "musts," nevertheless, they are always pleasant. And these publications are read by employees and their families with a higher degree of interest than that accorded most commercial publications.

—ROBERT D. BRETH. *Quotes Ending*, May, 1950.

A RECENT STUDY by the National City Bank of New York disclosed that among the 100 largest manufacturing corporations in the United States, the average investment per employee is \$12,000 and ranges from a low of \$5,600 in rubber to a high of \$41,200 in tobacco.

—*Profit Sharing* (Council of Profit Sharing Industries, Akron 8, Ohio)

Detecting Hidden Diabetes in Industry

RECENT SURVEYS HAVE SHOWN that there are at least a million hidden diabetics in the United States. Another two million people are likely to develop diabetes as they grow older. In 1900, diabetes ranked twenty-seventh among the causes of death. By 1945, it had come to be eighth among diseases as a cause of death. It is believed that this increase was largely the result of failure on the part of people suffering from the disease to get their illness diagnosed before it was far advanced.

Untreated diabetes can be a very costly chronic illness, both to the individuals involved and to the firms and industries in which they work. But this need not be the case. Most diabetics whose condition is known and who are under medical care can continue with their normal occupations. Only in a few cases may it prove necessary to shift a diabetic to less hazardous tasks. In almost every case, the known diabetic can remain a useful member of society and not become a charge against his family, his employer, or the state.

Because of the rapidly increasing incidence of serious cases of the disease in America, the American Diabetes Association created a special Diabetes Detection Committee in 1948, to organize and direct a continuing national Diabetes Detection Drive, spearheaded annually by Diabetes Week.

This year, Diabetes Week is scheduled for November 12 through 18. Last year's campaign uncovered approximately 7,500 hidden diabetics throughout the country—a remarkable record for a program only in its second year of activity. It is expected that this year's campaign will greatly improve on last year's record.

The Diabetes Detection Drive and Diabetes Week, as sponsored by the American Diabetes Association, is a program of the medical profession, supported and approved by the American Medical Association. It is planned as a public service with no public solicitation of funds. However, it is important to recognize that no group of physicians can conduct a successful local Diabetes Detection Drive without the assistance of every executive and every community leader. When a representative of the local Diabetes Association or Medical Society asks your firm to cooperate in conducting a Diabetes Detection Drive among your employees, try to assist him in every way you can. A successful Drive will not only assure you that undiscovered diabetics on your payroll are placed under treatment, but also that possible workmen's compensation payments and other types of economic drain resulting from chronic illness among your employees will be greatly reduced, insofar as such illness is caused by hidden, untreated diabetics.

It is vital that your employees know why they are being asked to undergo a test for the presence of diabetes. The American Diabetes Association has prepared a special article, directed to employees and designed for use in company publications and those of labor organizations, explaining the importance of undergoing the test. Copies of this article may be obtained upon application to the Association's national office at 11 West 42nd Street, New York, N. Y.

—LESTER J. PALMER, M.D. (President, American Diabetes Association, and Chief of Staff and Chairman of the Board, Virginia Mason Hospital, Seattle, Wash.)

UNIQUE FORM of distribution for a company publication has been achieved by the *Weirton Steel Bulletin*. In addition to some 15,500 copies which are picked up by employees at the plants and offices of the company, some 4,000 copies are placed on the newsstands in Weirton, West Virginia, and Steubenville, Ohio, to be picked up by readers who are not employees of the company.

Bobby soxers and their dates (possible future employees of Weirton) find the *Bulletin* in stores and soda fountains near their high schools every month; customers in cigar stores and at the cigar counters of drugstores find it on display; the bus terminal carries copies; the hamburger grill has it, as do restaurants, cafeterias and shoe-shine shops.

—*American Business*, May 1950

Industrial Research Practices in 41 Companies

DAVID BENDEL HERTZ
and
ALBERT H. RUBENSTEIN

WHAT ARE individual companies currently doing to meet their own research needs? Results of a recent study of industrial research facilities and practices in 41 companies suggest some interesting comparisons.

First a word about the study itself. At the recent Conference on Industrial Research sponsored by the Department of Industrial Engineering at Columbia University, 60 representatives of 52 industrial research organizations were given a questionnaire covering their research facilities and practices. The data from this questionnaire covering the practices of 41 companies are not necessarily representative of general research practice but are nevertheless of interest.

The companies represented at the Conference ranged in asset size and annual net sales from one million to one billion dollars. More than half had assets exceeding \$50 million and half did more than \$100 million of business in 1948.

The products manufactured by these corporations include:

Yarns	Chemicals
Coal	Electrical Instruments
Glass	Food Products
Metals	Consumer Durables
Paints	Small Arms
Abrasives	Rubber Products
Petroleum	Pharmaceuticals
	Paper Products

The questionnaire covered many aspects of the structure, personnel, facilities, and budgeting procedures of the research organization. Here, in summary, are some of the facts obtained:

The top executive responsible for research is a vice president in half the firms studied, a research director or manager in the other half. Most of these top execu-

tives report to the president or to a vice president, but one out of four reports to the board of directors. The research organization is represented on the board of directors in 18 cases, while 24 firms have the benefit of a research advisory committee composed of from four to six members.

Research includes development in 34 of the 41 firms, and includes engineering in eight. The usual ratio of professional to non-professional people ranges from about 0.6 to 1.0, with nine firms having ratios between 0.3 and 0.6; 20 firms having ratios between 0.7 and 1.0; and 10 firms having ratios over 1.0.

The research organization includes a legal staff in only nine out of 34 reporting companies, but 33 out of 41 have their own library. This is usually staffed by one or two librarians, less than a third of the firms having a staff larger than two. The number of volumes in the research library varies widely—from 1,000 to 10,000—and the number of periodicals subscribed to runs from less than 20 for 13 firms to more than 200 for the top five.

Twenty-six of the responding companies have a separate research building. The most popular form of space division in research buildings among these companies is a combination of large labs and modules (repetitive space patterns for two or three research workers).

The majority of research facilities described are located adjacent to or in the same building with manufacturing operations, and 21 are located adjacent to or in the same building with office operations. Only eight companies have research facilities geographically separated from office

or manufacturing operations of the company. Thirty-six of the research laboratories are located in a city or suburb and most of them are near at least one university and a large public library.

Most of the research organizations reporting are financed by a fixed annual sum. Half of them charge specific projects directly to the operating divisions. Fifteen organizations add approximately 125 per cent of direct labor as overhead. The rest use some other method of costing their projects, the most popular of which is an "actual cost" procedure, where an attempt is made to allocate costs directly to the project on which they were incurred.

The number of current projects per professional research worker run from

slightly under one-half to almost 12, distributed as follows:

Number of Projects Per Professional Worker	Number of Firms
Less than 1	8
1 to 2	10
2 to 3	6
over 3	7

The percentage of sales spent on research last year was less than 1 per cent for nine firms, 1 to 3 per cent for eight firms, and over 3 per cent for five of the firms studied.

Thirty-four of these organizations employ research consultants. Twenty-six have contracted out work to universities or colleges, but less than half have ever used a private research institute.

Labor-Management Cooperation for Safety: A Statement of Principles

COMMITTEE ON LABOR-MANAGEMENT COOPERATION FOR SAFETY*

The President's Conference on Industrial Safety, composed of leaders of American business, labor, insurance, educational, and private safety organizations, is dedicated to the saving of human lives, money, and production in industry. As a means of furthering this objective, the present Conference Committee on Labor-Management Cooperation for Safety commends to management's attention the principles set forth below.

THE term "labor-management cooperation for safety" is construed as evidence of actual cooperation, regardless of method, between the employer and the employees in a particular establishment wherein, as a result of such cooperation, accidents have been reduced or the accident experience maintained at a low level.

The following are recognized as the generally existing patterns of management and labor cooperation and/or participation in safety:

(a) A joint safety committee or safety council comprising representatives of the company and the union, whether or not

such arrangement is specifically provided for in the agreement.

(b) A unionized company or plant in which the safety program is organized and conducted by management with worker cooperation and/or participation without the use of a joint union-management committee.

(c) A non-union plant with worker cooperation and/or participation in the safety program.

The industrial accident problem can be solved only by full cooperation between the employer and employee.

There must be genuine participation on

* Chairman—Harold C. Zulauf, Vice President, Alexander Smith and Sons Carpet Co.

the part of all levels of management and employees in building and stimulating the safety efforts of the entire organization. This will produce understanding, pride in results and an appreciation of the sincerity and good faith of each party to the program.

Based on these premises, the following principles are fundamental:

1. Safety primarily is the legal and moral obligation of the employer. The employer must have a sincere and continuing interest in providing for the safety of employees. This interest is demonstrated by:

(a) The initiation of a sound safety program with the policies, procedures and staff necessary to make it effective.

(b) The provision of safe working conditions, machinery and equipment and personal safety protective devices and apparel where necessary.

(c) The development of effective training programs for supervisors and employees.

(d) The encouragement of employee interest and participation by making available channels through which employees may offer suggestions, advice and recommendations for the improvement of safety.

Management must have the authority necessary to carry out its responsibility.

No steps should be taken which create confusion and uncertainty as to management's responsibility and authority.

2. Cooperation in the safety program is the moral obligation of each individual employee. This is demonstrated by:

(a) Working safely at his job.

(b) Having regard at all times for the safety of fellow employees.

(c) Using his knowledge and influence to prevent accidents.

(d) Calling attention to unsafe conditions.

(e) Contributing his ideas, suggestions and recommendations for the improvement of safety.

3. In unionized plants the welfare of the employees places upon the labor union a moral obligation to cooperate in accident prevention, within the framework of its agreed-upon participation. This is demonstrated by:

(a) Taking its agreed part in the safety program in the plant.

(b) Using its influence in encouraging the employees it represents to work safely.

(c) Promoting accident prevention through its publications, union meetings and educational courses, with emphasis not only upon plant safety but also with due regard to safety in the home, on the highway, and in other activities outside the plant.

Organized Replacement Increases Plant Productivity

DURING THE past ten years, a 36 per cent reduction in machining man-hours per piece has been achieved at the Endicott Plant of International Business Machines Corporation. Over the same period, the company has invested several millions of dollars in new machine tools. Not all the decrease, of course, can be attributed to new equipment, but better machine tools lead to better methods, better tooling, and higher productivity on the

part of employees. It is the combination of all these factors that accounts for the decrease and convinces management that "there's no better paying investment than the right tools for the job."

With the exception of special-purpose equipment, practically 100 per cent of the machine tools of the Endicott plant have been replaced since 1945. This has been done through the normal operation of a replacement program that has developed

gradually over a number of years.

In its present form, IBM's program has seven salient features: (1) One man is in full charge of all equipment activities. (2) Manufacturing men get the latest information on machine-tool developments. (3) Equipment recommendations are based on group thinking. (4) Management is informed of replacement opportunities. (5) Dollar savings are not the only criterion for equipment purchases. (6) Expense records are kept on every machine tool in the plant. (7) The equipment engineer reports directly to the plant superintendent.

The man who heads up this program in each of the company's plants is the equipment engineer. It is his duty to direct and coordinate all activities pertaining to the purchase or sale of machine tool equipment. He is the equipment specialist of the plant, and full responsibility for determining what equipment to buy rests with him. As has been pointed out, he reports directly to the plant superintendent and thus is a part of the manufacturing organization.

Whenever a new idea turns up, the equipment engineer sees to it that production executives, tool engineers, methods engineers, department managers, and all interested plant personnel are informed. Should the idea seem attractive, he obtains full information from the manufacturer, conferring with the area representative if necessary. He then obtains IBM cost figures for the jobs in question and holds a meeting of all plant men who are responsible for tooling and production on operations that will be affected. In this way, the ideas and requirements of all people involved in the project are made known and the possibilities of overlooking considerations that have an important bearing on the proposal are minimized.

In many cases, a decision as to whether to go ahead with the project can be reached quickly; in others, questions are raised that require additional checking—or perhaps even arranging to send work for test runs in the manufacturer's plant. But when the decision is made, IBM

knows that all reasonable steps have been taken to make sure that anticipated benefits from the machines will be realized.

The next step is to present the proposal to top plant management. Final cost figures are prepared and entered in an appropriation form, along with any other factors pertinent to the project. Upon approval, the equipment engineer proceeds with the purchase.

It should be emphasized that dollar savings are not the only criterion for judging a proposal to purchase new equipment. Likewise, there is no set "payout period" in which a machine tool must pay for itself out of savings. Each proposal must be judged individually, and no fixed formula has been found that will satisfy the varied requirements of IBM's equipment needs.

In many cases, of course, savings are the reason for replacement. However, quality, safety and maintenance are three other sound reasons for replacement, and the company has purchased new equipment for one of these reasons, even though no direct labor savings were realized.

Quality standards are high, and machine tools must be capable of meeting these standards consistently. If Quality Control points out that any production unit is a poor performer, the result may be replacement of the unit, assuming uncontrolled factors are not present. The same is true as regards safety and maintenance. Any machine or device that reduces the possibility of accident is given careful consideration.

To keep track of maintenance expense, IBM has a tabulating card file in which every machine in the plant is listed, together with auxiliary equipment or attachments that go to make up the complete production unit. Expenses assignable to each machine are entered by accounting, and a complete report of the maintenance cost on each machine is forwarded to the equipment engineer once each year. Excessive costs are questioned and may result in replacement of the machine.

The individual department manager still remains one of the most important

figures in the entire replacement program. Many suggestions relating to any one of the four major reasons for buying a new machine come directly from operating supervision. Recognizing this, IBM sees to it that direct-line supervision is well in-

formed. In addition to advices from the equipment engineer, visits to manufacturers' plants are arranged for demonstrations of equipment. Attendance at society meetings and exhibits also is encouraged.

—MILES J. ROWAN. *American Machinist*, August 21, 1950, p. 97:3.

Is Your Safety Eye Wear Safe?

THERE IS increasing evidence that substandard safety eye wear is being used in numerous plants throughout the country. This is a situation which calls for correction at any time, but especially now, when high production is so vitally necessary and conservation of manpower even more so.

Protective eye equipment must be standard. It must be designed to meet specific hazards, it must be made according to accepted specifications, and of stated quality of materials. Otherwise it cannot and does not properly protect and serve the interests of the employee or the employer.

It has been found that in the main small plants without benefit of safety personnel or professional eye consultants have too often been influenced by nonprofessional factors in choosing safety eye wear. They have not been fully aware of the importance of adhering strictly to the standards and practices formulated by experts in the field.

It is sometimes difficult to get the cooperation of employees in observing the safety rules. Occasionally an employee expresses a liking for a type of eye wear which is not approved. Here the safety man, in order to protect the employee with something he *will* wear, may yield. This is bad practice as it cancels out prestige of authority, negates the safety rules, and carries by word of mouth to other plants.

Unsafe protective eye equipment sometimes gets into a plant because an outside personal contact (friend or relative) may want to introduce merchandise of an inferior quality which management and/or the safety man may not even realize is inferior. False economy also influences procurement of protective eye wear. Those responsible for safety programs should not be forced by management to purchase materials solely on the basis of price if this means obtaining substandard equipment.

The man responsible for safety in industry is the key to a successful and ethical program utilizing eye wear. When his responsibility for specifying safety requirements is subordinated to other factors, or when he permits dilution of his responsibility, the basic principles for safeguarding employees are tragically jeopardized. Management should insist on the use of standard quality protective eye wear. The support so given to safety, ethics and plant procedure is of tremendous value.

—HEDWIG S. KUHN, M.D. *Transactions of the American Academy of Ophthalmology and Otolaryngology*, March-April, 1950

AMA PRODUCTION CONFERENCE

The Fall Production Conference of the American Management Association will be held on Monday and Tuesday, December 11-12, at the Hotel Drake, Chicago.

The Handling and Follow-Up of Product Inquiries

HOW VALUABLE should a company consider inquiries about its products? That inquiries are considered important is evidenced by the lively interest in methods of follow-up shown by the majority of companies participating in a recent survey by the Sales Methods Committee of the American Supply & Machinery Manufacturers' Association. It is also apparent from the replies that these companies not only regard good follow-up as of prime importance but are seeking ways and means to improve their present systems.

Of the 59 Association members reporting in the survey, all but five have regular follow-up systems. Twenty-eight companies handle inquiries direct, sending complete information, including literature, prices and name of nearest distributor, while 26 companies acknowledge the inquiry and refer it to a branch, salesman, or distributor for answer.

An essential practice in any good follow-up system is the sending of a copy of the acknowledgment or quotation to the territorial salesman or the distributor selected. Forty-three companies send copies to their territorial salesman and 42 send them to the distributor. Five use special forms to notify their sales and/or distributive representatives—a time-saver generally favored by companies which answer a considerable volume of inquiries by form letters and literature.

It is perhaps significant that while 27 out of the 59 companies expect the territorial salesman to follow through on these inquiries, only 22 require a report from him, three require a report from the distributor, and only eight follow up from the home office until a report is obtained.

Three main requirements can be established as the essentials of any good system: (1) systematic handling of inquiries in home office, (2) systematic follow-up

with territorial salesman and distributor, and (3) systematic follow-up with salesman or distributor. These requirements are simple and obvious, but experience shows that they are widely violated.

For example, sales executives of one company did not know whether inquiries resulting from advertising were handled by Advertising or by Sales. Actually, they were handled indiscriminately by either, depending upon how they were distributed by the mail clerk. Those handled by Advertising were sent a form letter and appropriate literature, were recorded on a prospect list, then sent to the file whether or not there was anything that required a special answer, while others exactly like them, when sent to Sales, received a personally dictated letter with appropriate literature, and a copy was sent to the territorial salesman.

A simple change in procedure routed all inquiries to Advertising, where the large percentage that could be answered by form letters and literature were disposed of, and only those requiring special attention were then routed to Sales.

In devising or improving a system, the following questions should be investigated:

1. *What do our inquiries cost?* It is surprising how many manufacturers do not know how many inquiries their advertising produces nor what the cost per inquiry is. Find this out and impress upon everyone the fact that each inquiry costs "X" dollars and must be treated with respect.
2. *Who should handle inquiries?* In some cases Advertising, in others, Sales—or it may be necessary to divide according to type. Analyze your inquiries and set up a procedure.
3. *Should we record inquiries?* Most concerns advertising to the consumer know the value of records to Advertising in media selection. Concerns receiving few inquiries may elect to omit records but should first ascertain their value.

4. *Can we "formalize" our replies?* Where volume is large, form letters are a necessity and in other cases time can be saved with standard literature and form letters. But make it a real sales letter—make your reply sell.
5. *Can we "qualify" our inquiries?* In volume inquiries this is difficult, but every effort should be made to determine whether an inquiry is a "good" one before following up through Sales or Distribution.
6. *Should we give the names of distributors?* Companies handling volume requests usually send a dealer list to prospects. Detailed handling of this phase depends on the type of dealer, but some attempt should be made to tell the prospect where to buy.
7. *Should we notify salesmen?* Where volume is large, this could waste the salesman's time on poor leads, but where leads can be qualified, some procedure should be used to notify the territorial salesman.
8. *Should we notify distributors?* Same answer as No. 7.
9. *Should we use special distributor notification forms?* If volume warrants, especially where forms are devised for automatic follow-up.
10. *Should the home office or the salesman select distributors?* The salesman should be able to distribute inquiries to better advantage than the home office, but both systems are used and both seem to work.
11. *Should we follow up the distributors direct?* Although most follow-up on distributors is through the territorial salesman, it is a "hit or miss" matter. A simple follow-up system with distributors often results in sales which might otherwise not be made.
12. *Should we require a distributor report?* Follow-up as in No. 9 will generally result in a report. If an inquiry is worth sending out, it is worth finding out whether the order was obtained.
13. *How can we insure distributor follow-up?* Follow him up, and put your salesman to work on him when he doesn't report. If he doesn't cooperate, maybe you need another distributor. But find out how your distributors follow up your inquiries—many of the responding firms didn't know how their distributors follow up inquiries.

Every member of your sales department should be aware of the cost of individual inquiries (expenditures of advertising, etc.), so that they will not only follow up inquiries with the distributors, but will realize the value of them. It will pay you to examine your present procedure, keeping in mind the foregoing, and determine the best method of handling your particular inquiries. Having established the method, the follow-through will pay real dividends.

—Sales Methods Report No. 3, American Supply & Machinery Manufacturers' Association, Inc., 1108 Clark Bldg., Pittsburgh, Pa.

Manage Your Trade Marks

IT HAS long been recognized that the trade marks of a business organization are among its most valuable assets. Here are some suggestions for according them the kind of treatment they deserve.

I—*Set Up a Trade-Mark Manager.* There may be several ways to supervise and coordinate the use of trade marks, depending on the company's size, as well as on the complexity and diversity of its products.

- a. A company trade-mark committee, the chairman of which would cooperate with external trade-mark counsel.

- b. A competent person having responsibility for trade-mark protection, who also has general supervision over advertising and works with the company's external trade-mark counsel.
- c. An experienced resident trade-mark attorney (who could be a member of the firm's patent staff), who works closely with the advertising and sales executives.
- d. A trade-mark attorney for managing the trade marks, with basic policies controlled by a trade-mark committee.

The trade-mark manager or supervisor recommends objectives and policies to

protect the firm's investment in trade marks or service marks. He advises sales, merchandising and legal executives in the use of trade marks. He solicits registration of trade marks or service marks and studies court decisions affecting trade marks or service marks. He investigates infringements and recommends litigation in cases where infringers fail to cease their practices when requested.

He reviews trade and technical journals covering the field of the firm's activities to keep informed on trade mark practices in the field. In addition, he maintains a file of trade marks or service marks in use by others in the field; keeps a file of trade marks used in export business, by country, goods, etc.; and uses, as required, the United States Patent Office searches (there are excellent private search sources to supplement the Patent Office).

He also consults external counsel for specialized service and advice, and cooperates with or on the company's trade-mark committee. He keeps a file of the firm's selected advertisements to show the use of trade marks over the years, and above all, he glorifies and dramatizes the firm's trade marks in the internal house organ and external trade periodicals.

II. *The Trade-Mark Manual*. A trade-mark manual could be used to outline

some of the things which are to be considered in the use of existing and proposed trade marks. The nature of the trade-mark manual will vary from firm to firm, and much depends on the character of the industry or service field. The purpose of the manual is to standardize usages, practices and procedures in connection with trade marks, corporate names and signatures, for the information and guidance of all personnel of the firm and its domestic and foreign subsidiaries.

Responsibilities for compliance should be assigned to the heads of advertising departments of the firm, its divisions and subsidiary companies. They should be responsible for conformance of advertising, publicity and other printed matter having external distribution with the manual standards specified. Similarly, the heads of commercial departments should be responsible for trade-mark usage, as specified, upon merchandise and containers. The heads of departments and companies dealing with distributors and dealers should be responsible for effecting authorized use of trade marks by such distributors and dealers—whether on their stationery, in advertising or otherwise—and should enlist the necessary aid in stopping unauthorized use.

—Abraham S. Greenberg. *Trade Mark Information Service Reports*, Vol. 6, No. 14, Mar. 27, 1950.

SPECIAL MARKETING SEMINARS

A series of seven Marketing Workshop Seminars will be held at the Hotel Roosevelt in New York City on Wednesday through Friday, November 8-10. Discussion topics are:

Organization and Administration of the Sales Department
Sales Forecasting
Selection and Training of Salesmen
Planning and Control of the Field Sales Force
Sales Compensation Methods
Sales Analysis and Control
The Marketing Research Department in Action

For program or further information, write Marketing Seminar Secretary, American Management Association, 330 West 42nd Street, New York 18, N. Y.

Cost of Keeping Salesmen in the Field

THE COST of keeping salesmen in the field is still on the upgrade. A new survey made by *Sales Management* in May covering 300 representative companies in a wide variety of industries reveals that the average cost of keeping a man on the job in a metropolitan center is now \$13.20 a day. This compares with \$11.75 a day as revealed in a similar survey made in May, 1947—or an increase of 12.3 per cent.

The average cost of keeping a man in a small city is now \$10.31 a day as compared with \$9.09 in 1947, or an increase of 13.4 per cent.

In this survey, for the first time, *Sales Management* inquired into the cost of keeping executives in the field. Average cost per day in a large city, \$19.34—in a small city, \$14.27.

A check on sales executive travel during the past year shows that management men have been on the move: 127 sales officers reported an estimated total of 3,806,250 miles traveled, or an average of 29,970 miles each. Of this mileage, 2,253,070 (59 per cent) was by air.

Other findings: Favored period for filing expense account vouchers is weekly—about 61 per cent of the companies reporting follow this plan.

Seventy per cent of the companies leave the matter of entertainment expense to the salesman but check his expense account carefully on this item, while less than 10 per cent allow no expenses for entertainment.

The rising awareness of the need for proper retirement and pension coverage for salesmen shows up in the survey. Slightly more than half of all companies reporting on this question have established such coverage for their men.

There seems little doubt that companies today are tending to be slightly more liberal in their expense account policies than they were 10 years ago because they recognize the relationship between a man's feelings of well-being and his morale.

—*Sales Management* 7/1/50

Do Salesmen's Reports Waste Time?

IF YOU have a sneaking suspicion that your firm's call reports develop writers instead of salesmen, review your system to see how many of these points you can honestly check off:

1. Are forms made easy for the salesmen to use by listing routine information for general checking purposes?
2. Are they easy to tabulate—by hand or mechanically—for quick action?
3. Does management act immediately on all requests made in reports?
4. Do salesmen understand that the tabulations help them as well as their supervisors and branch managers?
5. Do reports require only usable and pertinent information?
6. Do they require enough necessary sales and market information such as:

Request to place account on mailing lists.

Request for special services.

Report on competition.

Contract expirations.

Key personnel changes.

Changes in inventory situation.

Information of interest to other branch offices, in split accounts.

Information on product design changes, for other departments in company.

Place of call.

Type of account.

Name, title of contact seen.

Potential of account, if new.

Estimated value of order.

Reason for no order.

Customer complaint.

Date of next call.

List of sales aids used on call.

Services rendered on call.

Promotion material requested by account.

Special prices quoted.

Request for accompaniment on next call.

—*Modern Industry*

Improving Relations Between Salesmen and Purchasing Agents

A PURCHASING AGENT can help a good salesman to become a better salesman. A salesman can help a good buyer to become a better buyer. Both will profit if they will take time to acquire better understanding of each other's problems.

The following is a recommended list of what each wants from the other and should be getting for maximum efficiency of both parties. Some of these things should be obvious but are often ignored by both parties.

This is what the purchasing agent wants from salesmen:

1. *Interviews by appointment.* When a lengthy presentation is necessary, an appointment permits the buyer in many cases to schedule his time so that it will not be necessary to rush the interview. This eliminates a second call when one should be sufficient.

2. *Punctuality.* Tardiness may cause conflict with appointments of other sales representatives.

3. *Respect for scheduled calling hours.* The salesman should realize the buyer has much routine work which must be done each day. Visiting hours are established in lieu of appointments in some companies to take care of this situation.

4. *Contact through the purchasing department.* Contact with other departments should be made through the purchasing department. The good purchasing agent will willingly arrange any necessary meetings with interested individuals in his organization.

5. *A sales presentation.* This is something that all purchasing agents appreciate, yet the salesmen who make such formal presentations are definitely in the minority.

6. *Emphasis on the merits of the product.* Some salesmen calling upon buyers open the conversation by saying they are very well acquainted with "the boss." This sort of approach hurts the salesman. The buyer suspects that the salesman's product may not be as good as his contacts.

7. *A "customer's representative."* A good salesman usually acts as the customer's representative when dealing with the salesman's company. He knows the customer's requirements and the vendor's ability to satisfy them. If the requested material is not available, the salesman should know whether one of his company's other products will be satisfactory, at least for an emergency.

8. *Prompt replies to requests for information.*

9. *Honest market information.* An estimate of future conditions is always subject to error, but the buyer expects truthful information so that he may purchase wisely.

10. *Information about how other customers are using the product*—especially if it is a new product. Lists of users are frequently attached or included in catalogs. But it is much more impressive if the salesman (when the use is not confidential) will tell his prospective customer of similar organizations using the product. The buyer wants such information. He may even ask to see the product in the process of being used by another company.

The salesman, however, is not the only one who needs to cooperate better. This is what the salesman wants from purchasing agents:

1. *A prompt and courteous reception.* The salesman's time is valuable to himself, his company and its customers. His time should not be wasted by an inefficient system of handling vendor representatives. If an agent has no time for an interview, the receptionist should ask the salesman about the nature of his call and advise him that someone else will see him.

2. *An opportunity for a sales presentation.* Some buyers interview salesmen in the reception room, where some of the salesman's competitors may also be waiting. This is unsatisfactory and unfair to the salesman. Furthermore, the salesman cannot make a good presentation if the

buyer is continually looking through papers or placing telephone calls.

3. *Facts about company buying policies.* In some companies certain items are purchased through a single or very limited group of vendors. Perhaps reciprocity is a factor. The time of seller and buyer will be conserved if the seller is advised of these buying policies on his first visit.

4. *Facts about the buyer's needs* or how the product is to be used. Most salesmen are specialists in the use of their products. If they are freely consulted they can usually offer worthwhile advice on better product uses. When a product wanted by the buyer is not available for any reason, the salesman's knowledge of his customer's use of the product may permit him to recommend a substitute.

5. *Correct specifications.* Do not offer unnecessary specifications to vendors who wish to submit bids. If the acceptable tolerance is 1/100th of an inch, a specification calling for 1/1000th of an inch may cause considerable machining and fabricating difficulty. This consequently raises the price to the buyer.

6. *Maximum time in filling orders.* Some buyers ask for immediate delivery when it is unnecessary. The buyer should realize the difficulties and extra expense incurred. The seller is much more likely to go all-out for the customer who usually

orders ahead than he is to help the customer who always wants special consideration.

7. *Reasons why he has not received an order.* Considerable time and effort may go into preparing a quotation submitted in response to an inquiry. If the order is awarded to another vendor, the seller is acting properly when he inquires whether the order has been placed, and if so, the reason he did not receive the business.

8. *Permission to secure proper contacts* in the buyer's organization. Many purchasing departments are lax in providing the salesman with proper contacts in the company. If the salesman cannot see the operating and other department personnel through his calls on the purchasing department, he will soon be by-passing the purchasing department.

9. *Notification of defective material.* When a buyer receives defective material and simply stops purchasing a supplier's product without explanation, the salesman has not had a full chance to prove that his company can produce a satisfactory product.

The purchasing agent or buyer is in a position to be one of his company's best salesmen or public relations officers. The treatment a salesman receives in the purchasing department is reflected throughout the community or area as the various salesmen travel and compare notes.

—J. E. COLEMAN. *Industrial Marketing*, August, 1950, p. 65:2.

Salesmen's Earnings in 1949

SALESMEN'S EARNINGS in 1949 failed again to keep pace with the rise in earnings of hourly workers, according to a recent study by the Conference Board. In fact, while hourly earnings were higher than ever before at the start of 1950, salesmen's earnings suffered a slight setback, according to a survey by The Conference Board of 238 manufacturing companies. The median figure for "average" salesmen's earnings in 1949 was \$5,831, a 3.2 per cent decrease from the 1948 survey median of \$6,023.

Earnings of salesmen in almost 60 per cent of the companies in last year's survey were increased over the previous year. But only 47.1 per cent of these companies show corresponding increases in 1949. Whereas 27.2 per cent of the companies in last year's survey showed decreases from salesmen's 1947 earnings, this year 34.9 per cent show a decrease. Not only are fewer increases noted, but the amount of increase earned by the average salesman in 1949 was somewhat lower.

Biggest increases in the earnings of average salesmen occurred in the building-materials and automobile industries. The largest decreases are found in the machinery, textile, food and chemical, drug and dye industries.

Making Administrative Overhead Flexible

THE PROBLEM of cutting costs has been as familiar one to controllers for as long as the function has been in existence. However, experience has convinced some of the old timers that the easy way may not be the best way to cut expense. A flat cut of a given percentage across the board is likely to cripple the very activities of a business which may be its best defense against adverse trends.

Recently the Controllershship Foundation, Inc., research arm of the Controllers Institute, made an intensive study of practices in 20 member companies in order to determine what controllers are doing to make administrative overhead more flexible.* Specifically, answers were sought to the following questions: What departments can be pared without hurting essential management activities? How can legitimate savings be achieved through improved methods? What types of management incentives will get the managers of departments really interested in reducing overhead? Is decentralization of management effective in achieving careful measurement of salaries and attendant expenses against the results accomplished; or is centralization in strong staff groups more economical?

A variety of approaches were found in the companies studied, but there was uniform agreement among controllers on the need for minimizing wasteful practices in administrative departments.

Per cent Cut Programs. A fundamental cost-reduction problem is summarized in one controller's definition of overhead: "Those salaries and expenses in the other fellow's department which we think ought to be reduced." This problem always arises when management sets out to re-

duce each administrative department by some flat percentage. Each division head then zealously rushes to the defense of his activities, and strives to protect the status quo in his personal domain.

One chemical company, finding itself faced with a sales slump after five years of continuous expansion of plant and product lines, has decided to consolidate its position for the present. Further expansion is being deferred. Each division head has been requested by top management to plan a force reduction to save somewhere around 10 per cent over-all in the cost of his department, recognizing that this percentage will vary between departments. The reduction is being achieved by elimination of functions not absolutely essential to the effective operation of the business and by the combination of existing functions. Any terminations of personnel have been based on a careful personnel review. The largest saving was accomplished in the Engineering Department, where curtailment in this case would obviously have been substantial because of the cessation of the plant construction program. Current control of overhead is continuing to be achieved by budgeting each administrative department for six months ahead, and by giving each department head a monthly comparison of all expenses charged to his department as compared with his budget. Meanwhile more careful project control is being set up on new engineering and research, with periodic review of results before research allocations are renewed.

Variable Budgets. Several companies are using variable budgets for administrative and service departments. These provide salary, wage and expense allowances

* *Meeting the Challenge of the Buyer's Market*, Controllershship Foundation, Controllers Institute, 1 East 42nd Street, New York 17, N. Y. 76 pages. \$5.00. In four sections: I. What Management is Doing to Avoid Inventory Losses; II. Getting Production Costs Under Control; III. Making Administrative Overhead Flexible (on which this abstract is based); IV. Renovation of Sales Forces and Sales Promotion.

for each department in terms of some ready measure of the activities of the department. It is claimed that monthly comparisons of actual expenditures quickly flag an unfavorable relation of a department to its work load, and lead to corrective measures.

An automotive and electrical equipment manufacturer uses variable budgets for sales and accounting departments, with the dollar sales determining the expense allowance. Timekeeping and payroll departments have allowances based on factory activity. The personnel or industrial relations departments are budgeted against the number of employees on the payroll, since the clerical work and number of personnel transactions, etc. should follow this quite directly. The research engineering department has its allowances set on the dollar total of authorized projects, or in some cases the manhours required to carry them out. Similarly, the production engineering staff is budgeted by the dollar sales of the products on which it works.

Control by Forecast. Some of the companies studied believe they control administrative overhead more readily through predetermining it in connection with regular profit and loss forecasts. This, they say, furnishes control in advance, whereas waiting for a statement of actual expense vs. budget, which may be available anywhere between the tenth and twentieth of the month following, merely flags the overage after the money has been spent, and corrective measures still must be taken.

A maker of rubber and plastic products has a forecasting method for salary overhead, which keeps it closely geared to operations as planned. An important feature of this company's profit and loss forecast is its standard organization budget. This is usually prepared annually, but is being revised in mid-year in view of the company's changing business outlook. This standard organization control is in effect a personnel management table for each department. Individual schedules develop the number of salaried employees allowable in terms of the level of activity; and this manning table (number of peo-

ple by types of position) is then multiplied by the median evaluated rate of each job. The Executive Committee then reviews the schedule, and may adjust projects and the salaried personnel allowed for them, and thereby supplement the budget for those departments whose activities should vary directly with the planned level of operations. Any adjustments as to number of persons employed are made by deferring hiring or replacements, accelerating retirements which may have been deferred during more active periods, and as a last resort, forced reduction.

Clerical Cost Surveys. Many controllers have noted that clerical costs have mounted well beyond their prewar levels. They are curtailing them by several means, such as: methods studies, use of mechanized accounting equipment, consolidation of separate units, and outstandingly, by the elimination of duplicate records and activities.

Some firms have successfully applied flow-charting and time-study methods similar to those used in factories to the study of clerical operations. With this information, they reload the jobs so that the operator then does just one kind of work instead of several, and set for each job a reasonable daily work-load. Excess personnel is absorbed through transfers, while new hiring is curtailed. No layoffs are made—and the office workers are assured of this when the job is begun—but the natural turnover of clerical help is used to get down to par figures. This method of clerical cost control is claimed to bring savings ranging between 20 to 50 per cent in various industrial, commercial and banking firms to which it has been applied.

A machine tool manufacturer is saving \$50,000 a year through scaling his production planning department down from 100 to 42 persons. This was done by the more effective use of routing slips and by improving the production control. Twenty expeditors in the plant were found unnecessary. This is but the clerical side of streamlining production flow and operations, but in this case, the alert controller moved in on his opportunity.

Several companies have been successful

in cutting their costs of order handling, through study of methods and work flow.

A garment accessory manufacturer has cut the cost of handling individual orders from \$1.50 to 50 cents through methods simplification and improved routing papers.

Some controllers are effecting savings through abolishing their unit or detailed records when they find duplicate records in operating departments. They still retain dollar control and inventory checks, but save on clerical expense through making the operating department fully responsible for the detailed records of unit quantities in inventory.

Decentralization. Some companies are cutting down the scale of their staff activities by decentralizing them to operating plants. In other cases this takes the form of breaking up a central administrative staff into a divisional organization established by major product divisions. These instances were mostly in multi-plant corporations, though the transition to a divisional setup was also encountered in one very large plant with several product lines.

A textile concern has announced its plans to decentralize control of its opera-

tions, heretofore centralized in its New York office. General managers are being appointed for each division, and this setting up of divisional staff will eliminate all headquarters staff functions which are found unnecessary. In this firm a reduction of overhead salaries and expense totaling more than \$2,000,000 yearly is anticipated as a result of this program.

A farm equipment manufacturer has been seeking economy at both staff and divisional levels. He writes, "Our company started about a year ago to impress upon the operating managers of our several divisions the importance of achieving greater economy in current operations, putting stress at that time on the restudying of all reports and clerical services, upon the closer budgeting of burden materials and upon closer auditing of our purchasing practices with a view to reducing the cost impact of purchased materials and parts... Within recent months we have added another idea to this economy program in that we have asked our operating people to examine critically the cost to them of the staff functions of our company and to raise objections to such costs where they feel they are not getting value received."

The Accountant's Share in Company Pension Problems

ROBERT C. TYSON, Comptroller
United States Steel Corporation

A COMPANY hires a youth at the age of 20 and agrees with him at the time that he will have a pension beginning 45 years later, when he stops working. And now the questions start popping up: How much will the pension be? Will he live 45 years more? Will he stay with the company? Where is the money to come from to pay his pension? How is it to be

provided? These are only some of the questions which multiply in number and complexity as soon as you begin to consider pensions.

Who is to answer these questions and answer them *before* the pension arrangement is made? In the final analysis, all such questions can be answered only in terms of records—records of people, their

From an address before the 30th Annual International Cost Conference of the National Association of Cost Accountants, New York, N. Y., June 19, 1950.

mortality, their turnover in employment, their probability of disability, their normal advancement in the pay scale, their survival spans in retirement, the normal growth of the business and its employment, the sources of funds, and so on.

These are the things which accountants and their actuarial counsels are in a position to know more about than are any other groups on the management team. Pensions, therefore, are matters that present both opportunities and obligations to the accountant.

In deciding upon a pension plan, the first thing to be determined usually is the bases upon which the actual amounts of pension payments are to be determined. An immediate next consideration is the cost, and whether or not the company can stand it. Depending on the cost, the bases are subject to reconsideration and revision.

Once the bases for granting pensions have been proposed, trained actuaries can determine within reasonable limits the dollar amounts to be paid to prospective pensioners in years to come. The accountant had best rely upon the skilled actuary for such estimates, supplying to him the necessary company records of employee numbers, sex, age distribution, compensation and turnover.

The accountant is then confronted with the necessity of determining the methods of meeting the cost of pension payments. There are a number of methods of providing for this cost. One is to operate the pension plan on what has come to be called the "cash disbursement" basis. A second method makes no provision for an employee's pension during his active service, but pays into a fund at the time of his retirement an amount of money which together with the interest it should earn, is calculated to be sufficient to pay his pension over his remaining life.

A third method is that which meets the minimum funding requirements under the U. S. Treasury Department tax regulations. This minimum requirement is that the past service cost at the effective date of the plan must not be permitted to increase. Stated another way, the annual future service cost must be met in full, and an amount at least equal to the inter-

est on the past service cost, at the rate assumed in actuarial estimates, must also be met. This method starts out by recognizing that the current cost of an employee's service is greater than the amount currently paid to him as wages because as he works, he concurrently establishes a possible claim to a pension. In a sense this is a claim to more pay for the same work; it is therefore deemed a part of the cost of that work and hence a part of the cost of the product currently resulting from that work.

Under this method, the actuary computes for the employees as a group the probable pensions that will be paid to surviving members of the group. He next determines an amount which, if paid into a fund currently, will, with the interest earned by the fund, provide the amounts necessary to pay the pensions to the survivors of the group, based on their service rendered subsequent to the installation of the plan.

This annual amount is the item which is given the name, "normal or future service cost." This cost does not provide for any pension payments based on service rendered prior to the installation of the plan, for which employees may be retroactively entitled to credit for pension purposes. Consideration of the means of providing for pensions based on service previously rendered and of their cost has caused the greatest confusion and greatest controversy.

If the clock could really be turned backward and the company could state its costs all over again, it would have provided in the past for the same normal cost of that prior period, as it now begins to provide for the future. On the date the plan is installed, the company would then already have provided sufficient funds which, together with interest already earned and to be earned thereon, would meet that part of the cost of future pensions based on service rendered prior to the start of the plan. The amount of this hypothetical fund at the date the plan is installed is the item to which is given the name, "past service cost." Meeting the interest requirements of this fund (in addition to providing the normal or fu-

ture service cost), is the Treasury's minimum requirement for funding pensions.

A fourth method of providing for the cost of pensions is to pay the future service cost, to pay the interest on the past service cost and, in addition, to fund the past service cost. Under Treasury regulations the maximum amount of funding, including interest on the past service cost, which is permissible in any one year for tax deduction purposes, is 10 per cent of the past service cost at installation date. This means that, at a maximum permissible funding rate, it would take about 11½ years to complete the funding.

Once the benefits have been decided upon and the method under which the costs will be recognized has been determined, the reflection of pension costs in the company's income accounts follows the pattern of other cost reflections in accordance with company accounting policy. Needless to say, good financial management will provide that any recognized pension cost not immediately payable to pensioners will be represented in funds with an insurance company, or trustee for the purpose of paying pensions when they come due.

The bigger the yield on the invested funds, the less are the accruing costs of the benefits under the plan. For example, if the future service costs have been estimated on the basis of a 2½ per cent yield, each one-half percentage point increase in the yield will reduce those estimated costs by about 15 per cent. If the past service cost is to be funded over a specified period, this cost also would be reduced, although not so greatly. If, however, it is intended merely to pay the interest on this past service cost, the higher rate which must be paid will more

than offset any gain through reduction in the principal of the past service cost.

I only mention these matters to indicate that although the actual investment of pension funds is not the function of the accountant, the results of that investment must nevertheless enter into the accountant's cost calculations.

It has been proposed by some that past service costs should be reflected as a liability in the body of the balance sheet, the offset being a reduction of net worth or some sort of deferred asset. Others would be satisfied to have them shown merely in a footnote as some sort of contingent liability. Still others believe—and I am one of them—that since we are in a new area of business operation, it is preferable to move slowly without adopting hard and fast procedures until we have lived with the problem for a while.

Unfortunately, the accountant's calculations of pension costs and his provisions for meeting them are meaningless except on the hypothesis of "honest money"—the money the buying power of which does not change very much over the years. Thus, if there is a continuing debasement of the money, with resulting price and wage inflation, then the dollar amounts of pensions, based in many company plans upon the wage level of the last ten years of service, will be greater than were provided for during the earlier years of service at lower levels of dollar wages. The dollar amounts set aside during these earlier periods, therefore, may prove insufficient and may have to be made up at higher costs than were originally calculated. If no money is set aside in anticipation of pensions to be paid later, then the burden of paying the pensions when they come due will be further aggravated.

AMA FINANCIAL MANAGEMENT CONFERENCE

A conference of financial executives will be held by the American Management Association on Thursday and Friday, November 30 and December 1, at the Waldorf-Astoria, New York City.

Implications of Recent Industrial Fire Experience

AN APPRECIABLE segment of industrial management and employees are either ignorant of the fundamentals of fire protection or are willing to gamble the existence of their business and their economic well-being to save the cost in money and effort of adequate fire protection.

An analysis of the large industrial fires of 1949 lists substandard building construction, absence of automatic protection, and wholly inadequate employee training among the chief causes of fire losses for the year. This points clearly to the need for a more intense and far-reaching program of education for industry itself.

Another significant factor is the effect of decentralization of industrial plants on their fire vulnerability. The Conference Board reported that 30 per cent of the plants established since 1940 are in towns of less than 10,000 population, compared with 20 per cent of the plants built prior to 1940. During 1949 these communities of less than 10,000 population experienced two-fifths of the large-loss industrial fires, though housing only about one-fifth of the nation's industrial plants. For the most part these communities are provided with protection wholly adequate for the needs of 99.9 per cent of the taxpayers, but inadequate for the special requirements of the one or two larger industrial establishments in their midst.

Decentralization is desirable for many industrial plants for various reasons, not the least of which is the removal of vital industries from target areas for enemy bombs. The National Fire Protection Association has been urging decentralization for this very reason. It is also our responsibility, therefore, to urge the management of decentralized plants to reassess the vulnerability of their properties to serious peacetime fires in the light of the public protection available.

There are three broad phases of public

protection that deserve industry's attention: (a) the fire department's equipment and manpower, (b) the alarm notification system, and (c) the water supply. If private protection is to be an adequate substitute for public protection, it must provide all three vital types of protection at all times.

An outstanding example of what may be expected where there is no fire department and where private protection has been provided to compensate for the deficiency is seen in the experience of one company located at Roxobel, North Carolina. Its five-story wooden building, in addition to being located in a town without public protection, had no sprinklers or watchman. Fire was discovered by neighbors at 11:00 P.M. and, as might be expected, had spread beyond control before volunteer departments from neighboring towns arrived 30 minutes later.

Compare this fire with one at the Long-Bell Lumber Company at Vaughn, Oregon, where the same public protection deficiency existed but where the management had taken remedial measures. Water mains, hydrants, hose houses and stand-pipes had been installed throughout the mill yard and within the 15 congested wooden buildings. A private fire brigade had been organized and trained, a fire alarm whistle was installed, and watchman protection was provided for non-operating periods.

When a fire broke out in the saw mill late one night the blaze flared up so suddenly that it appeared to the watchman literally to explode through the building. Although the saw mill was doomed from the beginning, the efficient operation of the plant fire brigade responding quickly to the watchman's alarm prevented flames from spreading to the remainder of the compact plant and averted a \$1,000,000 loss.

The alarm system is usually the weakest link in the fire protection system of a small community. Here is one case from last year's industrial fire experience. It occurred at 4:20 A.M. at Cashmere, Washington. A man and his wife, driving by the Cashmere Fruit Growers Union Building, noted a relatively small fire in one room on the first floor. Knowing there was no fire alarm box available, the man first tried to rouse the people directly across from the fire and when he failed, drove straight to the telephone office. By now he was so excited that the telephone operator thought he was drunk and refused to let him in to give the alarm.

He next drove around town until he found the city police car, but no policeman. What would you do? Blow the police siren? He did, and was soon joined by the law, who also mistook excitement for intoxication, refused to believe his story and was about to lock him up when the fire siren blew. Somebody else had discovered the fire. Thirty minutes had elapsed, however, and in the interim the fire had spread beyond control. This \$595,000 fire could have been prevented with a plant fire alarm whistle and *standard* watchman protection—note the emphasis on the word *standard*. The building possessed a so-called watchman, first advised of the fire by firemen, who found him in the basement repairing the compressor.

Adequate manpower, equipment and alarm facilities are of limited value unless a strong water supply is available at the scene of the fire. Booster tanks and long, small-diameter dead-end mains do

not classify as adequate protection for large industrial properties, yet time after time the fire departments of the United States and Canada are called upon to fight fires with such meager water supplies.

At Iola, Kansas, a fire occurred recently in the power house of the Lehigh Portland Cement Co. Since private water mains were supplied by electrically driven pumps, the shut-down of generators in the power house deprived the mains of water. The fire might still have been extinguished with minor damage had approaches been provided at a nearby creek for use by the two pumpers that responded promptly to the fire alarm. Eventually one stream of water was relayed to the fire from a quarry some distance away by these two engines. It was not sufficient, however, and fire continued out of control until the generator of a diesel-electric locomotive was hooked up to the mill fire pump. Three streams from yard hydrants then quickly brought the fire under control. Failure to provide pumper approaches was a \$200,000 oversight at this plant.

These are only instances of the disastrous damage that can result when weakness or nonexistence of one or more phases of public protection in small communities has not been compensated for by increased private protection. The next time you evaluate the fire protection of your plant, give more than a casual glance toward local facilities—the public fire department, the town's fire alarm system and the water supply. It's quite possible, if NFPA records are any criterion, that there is not as much protection there as you have counted on.

—From an address by CHESTER BARCOCK, Manager, Fire Record Department, National Fire Protection Association, before the annual meeting of the NFPA.

AMA FALL INSURANCE CONFERENCE

The Fall Insurance Conference of the American Management Association will be held on Thursday and Friday, November 16-17, at the Hotel Drake, Chicago.

Pension Plans May Be Illegal

THERE ARE PITFALLS IN PENSION PROGRAMS that even the actuaries don't know about. After being rushed into retirement schemes by union pressure or by a desire to move with a trend, some companies are surprised to discover belatedly that they are in trouble—with the law.

There are a number of laws that have a direct bearing on pension plans. Here are some of the most important pension requirements that employers have to watch out for:

Section 302 of the Taft-Hartley Act bans employers from making payments to unions for any purpose unless pension money is set to go into a trust fund.

Federal Communications Commission, Federal Power Commission, and Interstate Commerce Commission have regulations on funding past-service credits for pensions in companies which come within their jurisdiction.

Special state laws in Massachusetts, Illinois, Nebraska, Rhode Island, and California restrict and require certain pension plan features in order to safeguard the public and protect pensioners' rights.

State insurance laws in many states can be interpreted to cover pensions, welfare plans, and other "assured" employee benefits.

The Securities & Exchange Act may be interpreted by SEC to require companies with pension programs to comply with the registration and prospectus regulations of the law. The Act may also cover a pension plan as an "employees' securities company" under 1940 amendments which regulate investment companies.

The Bureau of Internal Revenue has standards for approving pension plans for tax purposes. Of all these legal requirements, the tax angle probably touches more pension plans than any other.

The important thing for pension planners to consider is whether BIR will permit the costs of their plan to be deducted from profits before—or after—taxes. BIR is guided by the 1942 revenue act which set up precise criteria for deciding what types of plans qualify for favorable tax treatment. The act was designed to make sure that pension plans:

- (1) Do not discriminate in favor of highly paid employees, and against wage earners;
- (2) Are not adopted as a temporary expedient;
- (3) Cover only employees (by a strict interpretation of the word);
- (4) Are actuarially sound;
- (5) Provide true retirement benefits—not a hodge-podge of unrelated social benefits.

These requirements still prevail.

Projected pension plans should be carefully checked by tax experts and competent lawyers. Mistakes can be costly, as some companies are already finding out.

—*Business Week* 4/22/50

Labor Secretary Endorses Subsidy Plan for Older Workers

THE PLAN proposed by Sumner Slichter, Harvard University economist, to subsidize employers who keep workers on the job beyond 65 years of age has been endorsed by Secretary of Labor Tobin. Under the plan, Mr. Slichter suggests that the employer be given one-third of the amount the worker would have received in Social Security retirement benefits had he retired.

Thus, if a worker eligible for \$900-a-year government pension continues to work, his employer would receive \$300 a year from the government for keeping the man employed.

Mr. Tobin says that under such a plan, management would find it worthwhile to organize operations differently, in order to provide more jobs for older workers.

—*Employee Benefit Plan Review*, Mid-year, 1950

Can Management Design a Pension Plan?

RETIREMENT PENSIONS are only a part of the total demand for security. The pattern of this demand is not narrow—it is world-wide in application and comprehensive in scope. In some lands, it has been answered to a much further degree than here in the United States; and in some instances, to the very real disadvantage of the whole economy of these countries.

Here in the United States, our present level of security has been reached through no deliberate design. It has come about through a sort of haphazard evolution—in the long run the only method possible in a society of free people.

The present drive for pensions brought on by union activity is creating confusion. The union approach makes the entire problem sound very simple. From the company point of view, however, pensions are a long-range problem, costly and complex. The first-year cost is no indicator of the ultimate cost. On the other hand, if management can design a pension plan to meet its company needs, many cost offsets are possible. Conversely, a plan designed solely to meet union demands may well be so expensive as to jeopardize the stability of the company, and be dangerous both to the company and its employees.

What are some of these dangers from a worker's point of view?

1. The cost of the pension plan is reflected in the cost of the product—the goods that he buys.
2. To receive a pension that is worthy of the name, the worker must have long service with the company. Does this mean that in order to have security against old age, the worker is to lose his freedom to change jobs? The unions, of course, have an answer for that, and it may be a good one: area plans, industry-wide plans, or what is technically called "immediate vesting."
3. Under some of the plans recently proposed by unions, the worker loses his right to withdraw from the union.
4. It costs more to provide a pension for workers 40-45 years of age than for employees of 25-30. Will this create a social problem?
5. A worker's individual security in a pen-

sion plan depends on the ability of the company to fund properly and maintain a plan.

6. What will the workman's pension dollar buy? The pension plan is in dollars, not purchasing power. If the pension plan is to provide stable purchasing power, the country should have as stable an economy as possible. Brakes must be applied to everything that contributes toward the inflationary spiral—and that includes economically unsound (too costly) pension plans.

What problems face management? The costs of the plan must stay within the ability of the company to pay if the plan is to continue. It must fit the company and must be adequately financed. Remember, too, costs tend to go up, and the amounts of money involved in a pension plan assume large proportions.

Right now, under present mortality experience at age 65 for a male, roughly \$1,400 is needed to provide \$10 per month for life. But life expectancy for oldsters is improving, so that for this reason alone costs will tend to increase. Interest rates must also be taken into consideration in making calculations. Will they go up or down? Tremendous amounts of money will be built up in reserves. Is an investment problem eventually going to result from these huge reserves? Wage rates do not remain constant. Benefits are not static. Every foreseeable factor points to continued increases in costs of maintaining the pension plan.

There are three necessary elements in a retirement plan. Today we have social security—originally intended to provide a basic minimum of protection for old age. The recent revision of the Social Security Act has as part of its declared purpose "to improve and extend the federal old age and survivors' insurance system." To the extent that it attempts to realign the benefit amount with the present purchasing power of money and to broaden the base of coverage to include more people, I am in substantial agreement with the revision.

This basic layer of protection was never intended to stifle individual initiative, nor

to preclude joint employer-employee action to provide the type of system best adapted to the needs of a particular company. Rates and living standards differ by locality, by industry, and by company within industry. For this reason, security for old age must be considered as a three-layer cake.

The first layer comprises the basic minimum subsistence, provided through the operation of a sound, well-administered and universal government insurance plan. To this, add a second layer—a plan meeting the particular needs and desires of a group—cooperatively arrived at through joint action of employer and employee. Finally, add the layer of individual thrift, independently determined by the man himself and fashioned to meet his particular needs, desires and circumstances.

I have placed primary emphasis on the second layer in the pattern of security for old age. It is important that management take leadership in this area, for it has the essential facts.

—G. GIBSON TERRIBERRY, Management Consultant. *American Economic Security* (U. S. Chamber of Commerce), Vol. VII, No. 1, Jan.-Feb., 1950, p. 18:5.

The information an employer must have either to consider or to discuss a pension plan realistically includes:

1. A history of company earnings before taxes, and the projection, admittedly difficult, of what the company will do in the future.
2. An analysis of employee characteristics, including hiring age, present age, earnings, and length of service.
3. A turnover study, to determine by age, sex and length of service the composition of the group who terminate employment with the company.
4. A review of current payroll, to disclose hidden pension costs reflected by employees who would have been retired had the pension plan been in effect.
5. An evaluation of union attitudes, to determine the degree of cooperation that can be expected from labor in the presentation and design of a sound pension plan.

The end objective of these studies, of course, is the establishment of a pension plan that meets company needs, is workable, and is actuarially sound. There is no easy way to attain this objective.

Money Can't Replace Men

CAPABLE REPLACEMENTS are preferred over insurance on the lives of key executives by four out of five of the 229 manufacturing companies recently surveyed on this point by the Conference Board. "Men can be replaced only by men" is the feeling prevailing in this group. Insurance on the lives of company executives, payable to the company as beneficiary, is considered unnecessary except in a few special cases and cannot really compensate them for the loss of a key man. These companies believe that the only protection against the untimely loss of key men is to have adequately trained understudies who can take over should the necessity arise.

Approximately one company in five of those surveyed carries insurance on the lives of some of its executives to offset the loss of their services to the company, and there is a marked variation in the policies of companies which do insure. Some insure only the chairman of the board or the president. Others insure key department heads. Coverages also range widely—from \$10,000 to \$1 million.

SURPRISING AS IT MAY SEEM, only a few workmen's compensation acts provide for payment of all reasonable medical bills. Thirty-eight laws have limits upon time or amount, as against a mere 14 jurisdictions in the United States and its possessions where no limits are stated in the law.

—HENRY B. SUTER in *The Casualty & Surety Journal* 9/50

The Embezzler—A Composite Picture

A STUDY of defalcations in business during the last two years is the substance of the booklet, *Embezzlers—Post War*, prepared by the United States Fidelity & Guaranty Co. The report is based on the 1,001 claims which arose under dishonesty insurance issued by the company during the 30-month period ending July, 1949.

The portrait of the postwar embezzler is a considerably blurred image of the embezzler of 15 years ago. The embezzler himself is younger, he earns more money, is less likely to be married, and has fewer dependents than his predecessor.

Male embezzlers outnumber their female counterparts about seven to one. The average male embezzler took \$4,194, while the female of the species took an average of \$900.

The occupation which accounted for most embezzlements was that of branch manager, including branch managers of grocery chains, clothing stores, shoe stores, liquor shops, insurance companies and banks. Branch managers were responsible for 155 of the total of 845 cases of male embezzlement studied.

For men and women the age range of embezzlers ran from 15 to 75. The average male was 34, the female 31. In previous years, the average age was 36. As in the past, the embezzler was not a poorly salaried person. The average wage for the men was \$274 per month, for women \$158 per month.

Almost half the male embezzlers had less than one year's service with their employers, while about a third of the women had less than a year's service. One male embezzler had worked for his employer 48 years. One woman had 30 years' service.

Drink and gambling were leading causes of defalcation among the men. "Living above means" and "criminal character" were chalked up as the second and third causes. One embezzler was saving for a rainy day—another had to pay for an automobile liability judgment. Chief cause for dishonesty among the women was living above their means. Family expenses, new clothes, and criminal backgrounds were next in line.

Most of the embezzlers were men and women who were honest until temptation assailed them. Their previous records were clear and they lived by honest work. They considered themselves honest, and when they first stole from their employers, they regarded it merely as "borrowing" to tide themselves over an emergency need for money—real or fancied.

—*The Casualty Insurer*, August, 1950

Record Increase in Group Disability Cover

ACCIDENT AND HEALTH protection in the United States provided by group plans written by insurance companies increased by one-fifth last year and was more than double the volume of such protection for 1945, the Life Insurance Association of America reports. The number of employer-employee and other group units which added one or another of the various forms of group protection last year was the highest on record.

Thousands of firms initiated new group plans for their employees. As a result of these many new plans in the past year and additions to plans previously existing, group insurance outstanding at the start of this year covered: 17,697,000 employees and dependents with hospital expense benefits; 15,590,000 with surgical expense benefits; 2,736,000 with medical expense benefits; 10,260,000 persons with \$228,400,000 weekly income protection in event of accident or sickness; 17,090,000 with \$39,983,800,000 group life insurance protection; 6,015,000 with \$2,054,300,000 group creditor's life insurance covering balances on loans; 6,669,000 with accidental death and dismemberment benefits; and 1,999,000 with group annuities.

—*The Weekly Underwriter* 7/29/50

Survey of Books for Executives

AMERICAN SOCIAL INSURANCE. By Domenico Gagliardo. Harper & Brothers, New York, 1949. 671 pages. \$5.00.

*Reviewed by William Goldner**

Two important phenomena in the area of social security have occurred in the past year: First and most important, a significant revision of our Social Security Program has been achieved; second, a substantial expansion in the number of private pension plans has taken place, primarily under the pressure exerted for such plans by trade unions.

It is against the background of these events that *American Social Insurance* has been published. From these developments, perhaps, we can extract issues and questions which will aid in evaluating Professor Gagliardo's book.

The primary purpose of this book is, in the words of the author, to present a "description—in simple terms and to a limited extent—of what we have, how we got it, and what the results have been" in social insurance. Professor Gagliardo discusses the problems of old age, unemployment, occupational injuries, and illness and disability as fundamental branches of the general question of insecurity. Then with relation to these basic subjects he describes the complex machinery that our society has developed to take care of these problems.

Management officials and personnel executives will appreciate the simplification and clarity with which the complexities of the Old Age and Survivors Insurance and the Unemployment Compensation systems have been treated. The structure of these security systems and the basis on which they operate are clearly described. Pertinent and succinct examples, as well as relevant statistics, are used abundantly to illustrate operations that defy the skillful pen alone. In addition to the author's treatment of the Federal Social Security program, he pays substantial attention to the Railroad Retirement System, and to such parallel pension systems as those separately operating in the Canal Zone, the Alaska Railroad, and the Federal Civil Service.

The author devotes one third of his book to the problems of illness and disability. In the absence of government programs caring for these risks, he discusses the several national health bills which have been drafted in the past and outlines the pros and cons of compulsory health insurance. There is a detailed discussion of hospital service and prepaid medi-

cal care plans. These programs are included in the discussion, although properly speaking they are quasi-private rather than social insurance. These latter sections will prove invaluable as general background material to analysts who are trying to establish appropriate policies for health and welfare plans in their organizations.

The most important section of the concluding chapter sums up the controversy regarding social insurance and public assistance (relief) programs. One school of thought on this question would stress social insurance programs and provide only a minimum of relief. The other would abolish social insurance and institute a universal basic relief program with a means test.

Professor Gagliardo chooses to resolve this issue by a down-the-middle compromise, in which we would have somewhat less social insurance and a bit more public assistance. He would accomplish this by (1) extending the waiting periods in unemployment compensation, (2) providing for hospitalization or medical care under projected health insurance only after four or five days of illness, (3) maintaining the revised arrangements on old-age pensions, and (4) supplying public assistance (including a means test) for those who would be economically burdened by these arrangements.

American Social Insurance, therefore, is a useful book, one which outlines the framework of our security system in a particularly illuminating way. The new materials on federal retirement programs, private medical-care and hospitalization programs, and cash sickness benefit programs are lodes which have been carefully and completely mined for pay dirt, and no great criticism is implied by the comment that this great field has been mined unevenly.

In terms of the author's stated purpose, the section on illness and health insurance has certainly been overemphasized. A parallel treatment in the field of old-age security would have touched more importantly on private pension systems in much the same fashion that private hospitalization and medical-care plans are discussed. The government's insurance program for veterans, a substantial portion of which consists of term insurance, is similar to the widow's benefits under Social Security, but it is not analyzed.

The controversies which were brought to the Congressional committees considering Social Security revision in 1949 and 1950 indicate that many Social Security issues remain unresolved. The question of extending coverage to certain groups, the problem of financ-

* Institute of Industrial Relations, University of California, Berkeley.

ing the program on a pay-as-you-go or funded basis, the incentive problem which is involved in the increment factor in benefits, are among the important issues which to a large extent will remain in controversy after passage of the long-awaited revisions to the Act. Discussion of the pros and cons of these and similar questions would have made an extremely valuable contribution to this study.

Finally I would object to the author's particular compromise of the fundamental policy question of insurance vs. assistance. It is certainly realistic to recognize that our great political system progresses by successive compromises. But there are truly hundreds of issues in social security, and the compromises can be distilled out of other conflicts of interest than that regarding the means test. Not only do large portions of our citizenry object to the indignity of such a test, but many of our public officials find it repugnant to administer and impossible to enforce.

PUBLIC RELATIONS FOR RETAILERS. By Tom Mahoney and Rita Hession. The Macmillan Company, New York, 1949. 248 pages. \$4.50.

*Reviewed by Maribelen McDuff**

"Public sentiment is everything. With public sentiment nothing can fail. Without it nothing can succeed."

Abraham Lincoln said it. Everybody knows it. A lot of people talk about it; but like the weather, almost nobody, including the retailer, does anything about it. Perhaps in no phase of American business are the problems of public relations more clearly delineated or more direct than in retailing. For there is no protective middle-man, there is no "fall guy" between the retailer and his ultimate consumer as there is in the case of the processor, the wholesaler, the manufacturer or the distributor.

Though there can be little doubt that Abraham Lincoln understood public relations, the modern business man seems confused by what he considers this hybrid of business operation—and even more confused by the welter of definitions ranging from the simple through the compound to the meaninglessly complex. Of one thing he may be certain, however: Public relations is inevitable; it is what people, all kinds of people—customers, employees, competitors, associates—think about him and why they think it.

Let's face it, there is no escape from public relations! Among the first to recognize this fact should be the American retailer. To help him build this foundation for successful busi-

ness structure, Tom Mahoney and Rita Hession have drawn a careful and exact blueprint in their complete and competent book, *Public Relations for Retailers*, one of the most specific and authoritative in its field.

The authors discovered the need for such a book while working together on a long-range study of the public relations for large department stores in six cities and their subsequent study of several hundred additional stores and retail organizations throughout the United States.

Both of them skilled writers and researchers, in addition to being expert public relations technicians, the authors have avoided the gobbledygook of so much public relations writing in drawing up a complete guide of modern business techniques that have proved enormously profitable to retailers, large and small.

The book clearly defines the meaning of public relations in terms of retail business and explains in detail the activities that can be most advantageously coordinated in a public relations program. It shows through interesting, factual case histories and well-chosen illustrations how the everyday details of retailing may be so handled that they enhance the good reputation, the good will, and the good business of any retailer. It covers the hundred details—credit applications, elevator service, door signs, the style of ads, community responsibility, employee training, the wording of news releases, and so on—that contribute to the gain or loss of public approval.

This is a book for the retailer who is aware of and interested in the wide area of public relations activity in the successful day-to-day operation of his business, for the man who knows that merchandise alone is no longer enough. But it is especially a book for the retailer who is unaware of or disinterested in public relations, for the man who believes that his role is the simple one of providing the merchandise and letting the public provide the sales. This man would do well to ponder Lincoln's appraisal of the value of public opinion—and for application of this appraisal to his own enterprise, he can secure no better guidance than that given by Mahoney and Hession in *Public Relations for Retailers*.

MANPOWER ECONOMICS AND LABOR PROBLEMS. By Dale Yoder. McGraw-Hill Book Company, Inc., New York, 1950. Third edition (revised). 661 pages. \$5.00.

While essentially the third edition of the author's authoritative *Labor Economics and Labor Problems*, this new text is so thoroughly revised in content that it presents in fact an entirely new book. Old material has been completely revised to take account of the extensive research in manpower economics and

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labor marketing during and since World War II.

Present emphasis reflects the growing acceptance of the viewpoint from which manpower is regarded as a natural resource of modern societies. The basic economic objectives of society are defined as the development, efficient utilization, and conservation of manpower resources. Labor problems represent failures to achieve these objectives. Emphasis is also placed on the economic implications of collective bargaining and on local labor markets.

New chapters have been added on manpower goals and problems, dimensions of manpower resources, wage structures, wage problems, job marketing, special problems of retirement and pensions, problems of status, economic implications of collective bargaining, and constructive industrial relations.

INSPECTION ORGANIZATION AND METHODS.

By James E. Thompson. McGraw-Hill Book Company, Inc., New York, 1950. 369 pages. \$5.00.

*Reviewed by W. J. Hall**

To those members of industrial organizations whose exposure to inspection activities is only incidental or is restricted to close-range departmental contact, Mr. Thompson's book provides an excellent opportunity to understand fully the functions of an Inspection Department.

To executives and managers, it points up the necessity for a sound inspection organization which includes a quality control program.

The scope of *Inspection Organization and Methods* is unusually broad, and Mr. Thompson prescribes many effective approaches to the proper functioning of inspection within an organization.

The executive will appreciate the developments on the practicability of fitting inspection into the production flow, thereby assuring better quality control and product acceptance.

Inspectors will find in this book a full appraisal of their functions and responsibilities. By following Mr. Thompson's recommendations on inspection procedures, the Engineering Department could feel more secure about complete follow-through on its developments. The author places in the inspector's realm the

opportunity, if not the responsibility, to recommend changes in processes, designs, and limits.

Superintendents and foremen will benefit by the realization that inspection is a service function established to insure the integrity of the product. Most department heads are so occupied with their own immediate problems that they have neither time nor opportunity to square off and view the true significance of the inspection function, and judge it only in part and as it appears at close range. They will find *Inspection Organization and Methods* essential to better understanding and acceptance of this phase of industrial control.

The value of the ingredients in Mr. Thompson's work cannot be dismissed lightly. In order to emphasize his points, he has felt called upon to repeat duties and functions to suit various instances—obviously in an effort to demonstrate the necessity of "holding the line" on quality and maintaining product integrity in every stage of production.

From a management viewpoint, there is soundness and depth in the principles and policies expounded by Mr. Thompson. His work presents a real challenge to those who tend to look upon inspection as a necessary evil.

Few books of this type penetrate their subject so deeply and so competently as does *Inspection Organization and Methods*. Whatever the viewpoint of the reader, he must acknowledge that this complete analysis cannot help but stimulate thinking and discussion on a vital phase of industrial operation, often lightly regarded and vaguely understood. There is not a supervisor whose usefulness and effectiveness would not be improved by greater understanding of the complete functions of the Inspection Department.

Inspection Organization and Methods definitely belongs in the industrial library.

The book is exceptionally well organized, but so fully developed that it may become "heavy" for the ordinary reader.

Chapter 3 (Organization) seems to favor superfluous supervision. Recognizing a supervisory force as necessary and vital, it still seems unnecessary and uneconomical to provide such excess overhead. Today's business tempo requires dynamic supervision—to break supervision into too numerous small elements slows down processes and delays decisions. It is understood that Mr. Thompson indicates suitable adjustment in organizational structure may be made, but the influence of this writing could mislead over-zealous chief inspectors.

* Production Manager, Ivanhoe Division, Reliance Electric & Engineering Company, Cleveland.

INCIDENTAL INTELLIGENCE: A rather important official of a large electrical equipment company was trying to find something in his secretary's files after hours the other evening and, going through the "H" drawer, came upon a fat folder marked "Happen, Possibly Something Will."

—The New Yorker

Controlling Factors in Economic Development: The Author Replies to the Critic

To the *Editor of THE MANAGEMENT REVIEW*:

In reviewing my *Controlling Factors in Economic Development* in the May issue of *THE MANAGEMENT REVIEW*, Frank D. Newbury so misrepresents the book that I feel it necessary to correct the record for the benefit of the readers of the magazine:

(1) The reviewer says that my analysis of the economic potentialities of the next century is derived from compound interest tables, assuming a 2 per cent annual increase in production per man-hour. This is not true, as I explicitly state in the text and as I amplify in an appendix note.

(2) The reviewer says there is little or no warning that current political and social trends may produce economic retrogression in the future; and he fears that the book encourages the nation to spend more for social welfare and security than we can afford. This is an incredible statement in view of the fact that I follow the chapter on economic potentials by one entitled "Underlying Requirements." Among other things, I attack the philosophy that the public debt is of no significance; I stress the absolute importance of achieving and maintaining fiscal stability; I emphasize the dangers involved in the prevalent view that there is little which this nation cannot afford; I point out that welfare programs tend to follow "what may almost be called a law of expansion," and that "decisions currently made tend to have a vast forward thrust, heavily mortgaging potential revenues decades hence." I state that "the prevailing conception that money income derived from government expenditures, or, to use the more euphonious and euphemistic phrase, 'the government's contribution to purchasing power,' is equivalent to any other income from the tax point of view involves an elemental fallacy"; and that "the percentage of the total national income derived from procreative private enterprise has been steadily decreasing as the range of governmental activities has widened. Thus the burden to be carried by the private sector of the economy continuously increases." The book also contains a wholly adverse appraisal of Keynes' philosophy and that of his American disciples. Instead of giving aid and comfort to the spenders, the book is anathema to exponents of the spending philosophy.

(3) The reviewer says that my analysis of incomes and savings is based almost entirely on 1929 data. This also is a flagrant misrepresentation. I devote a whole section of the book to the evidence of later years, and I show that there has been a sharp reversal of the savings trend since 1929.

(4) The reviewer states that I include capi-

tal gains as a part of the national savings. This also is not true. I do include realized capital gains as a part of the national money income. Such realized money income may either be spent for consumer goods or be directed to savings channels. In an appendix, which the reviewer has apparently not read, I discuss this problem in detail.

(5) The reviewer states that the book gives aid and comfort to all those who believe that purchasing power in the form of wages is a legitimate first charge against profits; and it is implied that I endorse the theory of expanding the money buying power of the masses irrespective of production. The facts are that I emphasize that increasing man-hour output is the indispensable first step—that there can be no increase in real income unless there is increased output. Then in a long discussion of methods of disseminating the benefits of technological progress, I show why increasing wages is disruptive and that a reduction of prices, as technological progress makes reductions possible, generates the expansion of buying power necessary to sustain current demands. The best evidence that my analysis does not give aid and comfort to the purchasing-power advocates is that the book is anathema to this group.

The first requirement in a book review is to state accurately the author's thesis and conclusions. Misrepresentation, whether deliberate or merely the result of careless reading, is always indefensible.

HAROLD G. MOULTON
President, The Brookings Institution
Washington, D. C.

Rejoinder by MR. NEWBURY

To the *Editor of THE MANAGEMENT REVIEW*:

Controversies are, in many instances, rooted in misunderstandings and the discussion of different things. I believe this is true of the present disagreement. Dr. Moulton is concerned with his over-all position. My criticism of his book was based partly on my opinion that people would draw wrong inferences—however unfounded—from his optimistic discussion of production potentials.

My major criticism, however, was directed to the point that consumption expenditures are most important in determining business activity and that investment expenditures are secondary. I pointed out that only one-third of total public and private expenditures for investment goods is directly connected with production of consumption goods. Dr. Moulton does not re-

fer to this point. Again we are discussing different things.

I regret that my review gave Dr. Moulton a wrong impression of my position—that I believed he agreed with the advocates of more and more spending and the redistribution of income in order to increase expenditures for consumption. What I intended to convey was

the idea that Dr. Moulton's overemphasis on the importance of consumption expenditures gave aid and comfort to the "spenders." As I said in my review, "I am sure Dr. Moulton did not intend this result."

FRANK D. NEWBURY
Controllership Foundation, Inc.
New York, N. Y.

Briefer Book Notes

[Please order books directly from publishers]

THE ANALYSIS OF COST-VOLUME-PROFIT RELATIONSHIPS. Section Three, *N.A.C.A. Bulletin*, December, 1949. National Association of Cost Accountants, New York, N. Y. 41 pages. Describes methods for analysis of relationships between costs, volume and profits which may be used in business planning, including the use of breakeven charts to present such information. Particular attention is given to the interpretation of such analyses, with descriptions of specific examples of their application by representative companies in every major industrial field.

CONTROLLING THE BREAKEVEN POINT. Proceedings of the First Semi-Annual Industrial Management Institute, College of Commerce and Business Administration, University of Illinois, with the cooperation of the Illinois Manufacturers' Association. Available from Dr. Earl P. Strong, Business Management Service, 408 David Kinley Hall, University of Illinois, Urbana Ill. 1950. 72 pages, plus exhibits. \$2.00. Papers by a distinguished group of business executives, management engineers and educators on the significance and use of the breakeven point as a measure of profit; accounting, budgetary and managerial controls of the breakeven point; work simplification as a tool of cost control; sales forecasting and capital investments, and their effects on breakeven points; quality control vs. inspection; and other aspects of effective control.

PROCEEDINGS OF THE NEW YORK UNIVERSITY EIGHTH ANNUAL INSTITUTE ON FEDERAL TAXATION. Matthew Bender & Company, Inc., Albany 1, New York, 1950. 1361 pages. \$22.50. In this comprehensive volume, present-day problems of federal taxation are discussed by a distinguished group of lawyers and accountants who are acknowledged authorities on specific phases of taxation. Contains 124 individual papers under the following broad headings: Intercorporate Operations—Tax Problems Arising in the Dealings Between a Parent and Its Subsidiaries, Related Companies, etc.; Tax Problems of Specific Industries and Businesses; Corporate Form and Corporate Reorganization; Procedural Matters; Estate Tax Planning; Questions of Business Income, Business Expense and Business Accounting Methods; Problems of the Stockholder and His Corporation; Tax Problems that Come with Various Kinds of Purchases and Sales; Vital Topics in Present-Day Taxation; Personal and Family Income Tax Problems; and Penalties and Pitfalls Facing Corporations and What to Do About Them.

PROCEEDINGS OF NEW YORK UNIVERSITY SECOND ANNUAL CONFERENCE ON LABOR: Trends in Collective Bargaining and Labor Law. Emanuel Stein, Editor. Matthew Bender & Company, Inc., Albany 1, New York, N. Y. 1949. 720 pages. \$10.00. The chief subject of this conference was the labor agreement, and most of the papers contained herein are devoted to some aspect of it. Provides an excellent "refresher" course for the labor relations practitioner, enabling him to reconsider and re-evaluate his company's programs and practices in the light of recent developments and expert opinion. The distinguished list of authors represented here includes Solomon Barkin, J. Noble Braden, Emily Clark Brown, Neil W. Chamberlain, Max Delson, John T. Dunlop, Jesse Freiden, Hiram S. Hall, Lois MacDonald, Charles A. Pearce, Lloyd G. Reynolds, William E. Simkin, and others.

TAXES AND ECONOMICS INCENTIVES. By Lewis H. Kimmel. The Brookings Institution, Washington, D. C., 1950. 217 pages. \$2.50. This study appraises the principal taxes now employed from the standpoint of their effects on economic incentives. Following a background discussion of taxable capacity, the economic effects of the several types of taxes are examined. Major emphasis is placed on the reactions of the taxpayers. Business men, tax administrators, and students of taxation will find the analysis authoritative and informative.

PORTS OF THE WORLD—1950. Marine Service Department, Insurance Company of North America, Philadelphia, 1950. 34 pages. Gratis. A helpful bulletin which specifically describes foreign port conditions all over the world. Offers valuable loss-prevention recommendations for shippers and consignees, based on long and varied experience with all types of commodities, storage and stowage factors and up-to-date information on handling and transport conditions throughout the world. Illustrated.

Conveyor Belts—They May Move People, Too

A RUBBER CONVEYOR BELT will soon begin scooting 900 tons of iron ore an hour up a 1,150-foot slope in an open-pit mine at Bovey, Minn. It will speed the ore to waiting railroad cars at 600 feet a minute. In suburban Mansfield, Ohio, a farmer installed in his dairy barn this spring a conveyor belt that "shovels" the manure of 25 milk cows from the barn gutters into a manure spreader outside. It does the job in eight minutes morning and night, saving some 16 to 20 man-hours of work each week.

These two new installations of "beltways" engineered by Goodyear Tire & Rubber Company are on a lengthening list of applications being found for conveyor belts in mines, factories, and on farms. The broad black ribbons of rubber and fiber are getting longer, wider, and faster-moving. This enhances their appeal for potential users.

In coal and iron mines or on heavy construction jobs, they are helping eliminate the need for trucks, railroad cars, locomotives and tracks. In self-service grocery markets they are speeding up handling of customers at check-out counters. In factories they are helping do away with costly picking-up and putting-down of raw materials.

The legion of uses to which belts are being put has their makers beaming. One big reason: Industry's labor and production costs in most instances have never been higher, and cost-cutting ability is considered a prime trait of conveyor belts.

Belting engineers see belts hundreds of miles long zipping over countryside, adding to the competition woes of railroads and long-distance truckers. The day is drawing nearer when their mechanical contraptions will carry human passengers as well as bulk cargoes. One such potential project is a conveyor for moving passengers underground from New York's Times Square to Grand Central Station, replacing the present subway shuttle trains. Another is a system for carrying congressmen between the Capitol and House Office buildings in Washington, D. C.

—CLAYTON R. SUTTON in *The Wall Street Journal* 7/25/50

New AMA Catalogue to Inaugurate Simplified Discount Policy

A REVISED AND EXPANDED CATALOGUE of AMA publications, covering the 19-year period from February, 1932, to November, 1950, will be mailed to members on October 20. Effective with its publication, the Association will inaugurate a new discount policy on conference proceedings designed to simplify purchasing and bookkeeping. On purchases of conference proceedings by all classes of members who do not receive such proceedings under their memberships or who desire extra copies, a uniform discount of 20 per cent will thereafter apply. Substantially higher discounts will be granted on quantity orders.

The policy on non-member purchases of proceedings will remain unchanged, with a discount of 15 per cent applying only to purchases of more than 100 copies.

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